HURRICANE
HYDROCARBONS LTD.

Харрикейн
Хайдрокарбонс

Annual Report

1997

December 31st

Notice Of Shareholders' Meeting

The Annual and General Meeting of Shareholders will be held at 3:00 p.m. on Monday, May 25, 1998 at the Westin Hotel, Mayfair Room, 320 - 4th Avenue S.W., Calgary, Alberta, Canada.

All shareholders are encouraged to attend and participate in the meeting. Those unable to attend should vote by proxy.

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CORPORATE HISTORY

Hurricane Hydrocarbons Ltd. is an international energy corporation engaged in the aquisition, exploration, development and production of oil, primarily in the Republic of Kazakhstan.

The Company has been involved in joint ventures in Kazakhstan since 1991 and participated in the country's first major oil and gas privatization in November 1996. Hurricane purchased a state-owned oil production company, Yuzhneftegaz, now renamed Hurricane Kumkol Munai (HKM).

Hurricane owns proved plus probable reserves which have been independently assessed at 429 million barrels. Production of sweet, light crude is sold in the Kazakhstani market. Exports to China and Turkmenistan are planned for 1998.

The Company's success comes from the joining of strong western financial support and technological expertise with the skilled workforce and rich resources of Kazakhstan. Hurricane also maintains a strong commitment to supporting the communities in which it operates.

Hurricane Hydrocarbons Ltd. is listed on the Alberta (ASE) and Toronto (TSE) stock exchanges under the trading symbol HHL.A and on Nasdaq under the symbol HHLAF. Hurricane is a member of the TSE 300 and the TSE 200 composite indices.

1997 ACHIEVEMENTS

- *Increased net income from $11.9 million in the first six months of 1997 to $15.8 million in the six months ended December 31, 1997.*
- *Increased proved plus probable reserves from 389 to 429 million barrels and proved reserves increased by 56 per cent, thus increasing the overall quality of the reserves.*
- *Successfully brought the South Kumkol field onto production. The 100 per cent owned field has proved plus probable reserves of 28 million barrels.*
- *Formed a joint venture with the Eastern Gate Company of Kazakhstan to complete a rail transshipment terminal to facilitate export of crude oil into China. The terminal, located at Druzhba on the Kazakhstan-China border, will be completed in the third quarter of 1998 and will have an initial throughput capacity of 20,000 barrels of oil per day (bopd).*
- *Met commitments to Kazakhstani employees to cover unpaid salaries and outstanding pension fund obligations as per the share sale purchase agreement.*
- *On November 19, 1997, Hurricane was listed on the Nasdaq National Market under the trading symbol HHLAF.*
- *Completed a debt offering in the United States of $105 million, on November 7, 1997. The proceeds are being used to accelerate the Company's production and development, and to increase reserves.*

FINANCIAL HIGHLIGHTS

($ US millions except per share amounts)	**Six months ended Dec 31 1997**	Year ended Dec 31 1997[1] (unaudited)
Gross Revenue	**94.8**	168.3
Cash Flow	**32.0**	58.0
Basic Per Share ($)	**0.75**[2]	1.35[2]
Net Income	**15.8**	27.8
Basic Per Share ($)	**0.37**[2]	0.65[2]
Capital Expenditures	**47.3**	69.4
Shareholders' Equity	**130.9**	130.9

(1) Figures for the year ended December 31, 1997 were compiled from Hurricane's unaudited quarterly reports. The comparative figures contained in the audited financial statements are for the year ended June 30, 1997 which included seven months of operations of Hurricane's subsidiary, HKM.

(2) Per share amounts for both periods are calculated based on 42.8 million being the weighted average number of shares outstanding during the six months ended December 31, 1997.

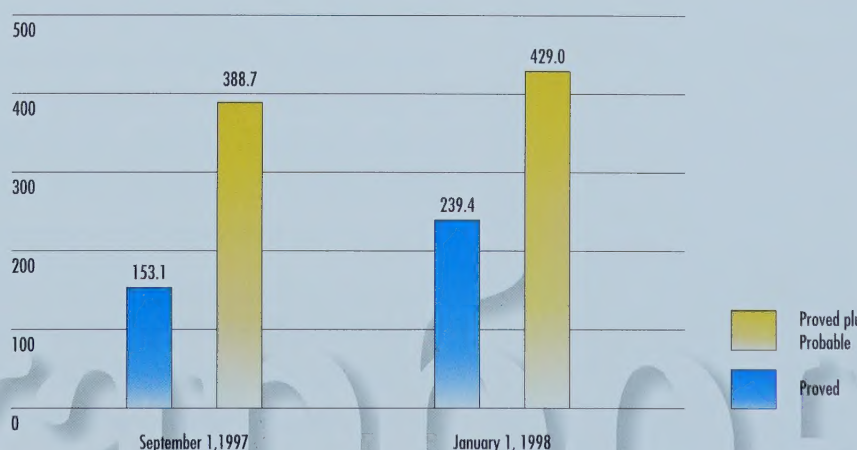
OPERATING HIGHLIGHTS

	Six months ended Dec 31 1997	Year ended Dec 31 1997
Production – daily average	46,678	45,525
US $/barrel of oil equivalent		
Net Income	1.80	1.77
Cash Flow	3.60	3.69
EBITDA	5.09	5.26

The figures for the six months ended December 31, 1997 were impacted by higher average royalty rates and higher interest costs.

RESERVE HIGHLIGHTS

(millions of barrels crude oil)



Hurricane's operations in Kazakhstan require communicating in the Russian, English and Kazakh languages. The words you see screened in the background of this annual report are the spelling of our company name in Russian – Харрикейн is Hurricane, Хайдрокарбонс Лтд. is Hydrocarbons Ltd.

TO OUR SHAREHOLDERS

Hurricane's story is one of growth, ambition and independence. A story much like that of Kazakhstan, the country where we conduct our business.

JOHN J. KOMARNICKI
President &
Chief Executive Officer

Hurricane has been at home in Kazakhstan since 1991 and our growth over the years has been deliberate and strategic. We studied the hydrocarbon resources in Kazakhstan and knew we wanted to be independently located, yet near essential infrastructure. Our choice of the South Turgai Basin, in east central Kazakhstan, has given us reserves of 429 million barrels of oil, a strong local workforce, and reliable connections to transportation, refinery and electrical infrastructure. These assets, added to our unique position as principal operator in the area, position Hurricane as a leading force in the emerging oil industry of Kazakhstan.

Hurricane continues to be successful in Kazakhstan because we support the country's plan to become a thriving market-based economy. Kazakhstan's privatization plan has two central goals – to encourage the investment of capital and technology to develop the country's resources, and to address social and economic needs. Hurricane's investment in both the technical and social goals of the country has created a powerful formula to meet investors' needs for low cost/low risk exploitation of fields and the country's need for long term prosperity.

Q **Why did Hurricane change its year end?**

A Hurricane Kumkol Munai, and most Kazakhstani and North American companies have a December 31 year end. Hurricane changed to conform to this standard.

Q **Why does Hurricane report in United States dollars?**

A As Hurricane is an international company and our operations are primarily denominated in US dollars, we chose to report in a consistent currency.

Q **Why did Hurricane introduce the shareholders' rights plan?**

A If an offer were made it would allow additional time for directors and shareholders to assess the offer and to assure the offer is made to all shareholders.

Q **What does the Canada-Kazakhstan Tax Treaty mean for Canadian investors in Kazakhstan?**

A This treaty avoids double taxation by coordinating the tax systems of the two countries. It also provides a reduced rate of withholding tax on dividends paid from Kazakhstan to Canada.

I recently received a letter from Kazakhstan's President Nursultan Nazarbayev acknowledging the contribution Hurricane has made to the country. He writes, "I am sincerely grateful to you for your active work in developing the natural resources of Kazakhstan and impressed by the results you have achieved in such a short time. In my opinion, the fruitful activities of Hurricane in our country have confirmed our decision to seek mutually beneficial cooperation with developed countries, to seek foreign investment and to create favorable conditions for investors to enter the Kazakhstani market."

The government's privatization plan has proven successful in developing the economy of Kazakhstan as is evidenced in President Nazarbayev's economic report for 1997. The tenge, the local currency, has been stable for more than two years, foreign investment is up 20 per cent, inflation is down to 12 per cent and the political and economic structure continues to look strong for the future. The country's GDP rose 2.5 per cent. A growth rate which, according to the World Bank, is the highest of the Commonwealth of Independent State countries.

For Hurricane to prosper in Kazakhstan, we have had to be resourceful, determined and take a hands-on approach. To resolve the challenges of servicing our remote location at Kumkol, we have maintained the infrastructure departments created by the former management. These construction, drilling and agriculture departments serve our operations in a timely and cost effective manner. We are working on turning these divisions into viable profit centres to serve the needs of Hurricane, our joint venture partners, the community and other companies.

We are also committed to continuing to use the skilled local workforce. We have complemented this workforce with a strong team of experts to provide additional leadership and training. Our intensive management training program, coupled with technological upgrades, is creating a workplace that is safer and more efficient. We encourage local employees to actively participate in the changes and we applaud their innovation and initiative.

Looking Forward

Our strategy for success in the coming year is a two-pronged plan to increase production and realize stronger netbacks from our sales to both domestic and international markets.

Production has grown steadily from 41,500 bopd when we acquired the company in December 1996 to more than 58,000 bopd by the end of 1997. Our target is to end calendar year 1998 with a daily production rate of 90,000 bopd. We must be aggressive in our production, drilling and construction activities to meet

Hurricane has a strong financial position including favorable debt coverage ratios. Cash flow was strong during 1997, and is forecasted to increase during 1998 due to increasing production and crude sales prices, and decreasing operating costs.

this objective. In pursuit of this goal, we have established a maximum 1998 capital budget of $169 million.

In addition to the recent activities in the South Kumkol field, we plan to drill more than 60 additional wells in 1998. We have increased proved plus probable reserves, as at January 1, 1998, from 389 million barrels to 429 million barrels. In addition, the proved reserves have increased to 239 million barrels from 153 million barrels, an increase of 56 per cent. The recent expansion of our Central Processing Facility will be followed by additional construction to achieve a daily processing capacity of 125,000 barrels by the end of 1998.

We are also committed to further improving profitability by reducing operating costs and negotiating higher selling prices in Kazakhstan. While, until recently, our average sales prices have been lower than world prices our transportation, finding, development and on-stream costs compensate for the difference. In recent months, while world oil prices have dropped, Hurricane's selling price has remained constant.

We expect our sales prices to increase in 1998 in both the domestic and export markets. When we made our acquisition in Kazakhstan, oil was bartered or sold very cheaply. These methods did not meet our needs or the realities of the economy. Today, we work in tandem with our key domestic buyers to achieve realistic local prices. Export opportunities to China and Turkmenistan have the potential to supplement the domestic market.

Our achievements, our ability to overcome challenges and our plans for the future would not be possible without the dedication of our people. Employees at our operations in both Kazakhstan and Canada have brought their insight, energy and enterprise to this company. It's because of them that Hurricane is a successful company and a leader of privatization.

On behalf of the Board,

JOHN J. KOMARNICKI
President and Chief Executive Officer

April 15, 1998

REVIEW OF OPERATIONS

Hurricane increased its proved plus probable reserves to 429 million barrels as per

Hurricane's operations are located in the 31,000 square mile South Turgai Basin in south central Kazakhstan, approximately 625 miles west of Almaty. Hurricane has an interest in eight fields with land holdings totaling 405,400 acres and a license to explore an additional 518,400 acres.

Proved plus probable crude oil reserves have been estimated at 429 million barrels as at January 1, 1998 by McDaniel & Associates Consultants Ltd. Reserves are shallow, averaging 3,000 to 5,000 feet, and produce light, sweet crude at 35° to 43° API. The sulphur content is less than 0.4 per cent.

the January 1, 1998 reserve evaluations conducted by McDaniel & Associates Consultants Ltd. Since acquiring the company in 1996, Hurricane has increased its reserves 26 per cent.

In December 1997, the average monthly production was 51,710 barrels of oil per day (bopd) and the company exited the year with 58,600 bopd on December 31, 1997. In total, Hurricane produced 16.6 million barrels of oil in 1997.

Hurricane transported all its oil production via pipeline to the Shymkent refinery in southern Kazakhstan. Hurricane's crude and refined products were sold in the domestic market at an annual average realized price of $10.64 per barrel.

As per the share sale purchase agreement, Hurricane is obligated to invest $280 million by 2002. To this end, Hurricane had invested over $70 million toward operational enhancements by the end of 1997 and expects to invest as much as $169 million for exploration, development and production during 1998.

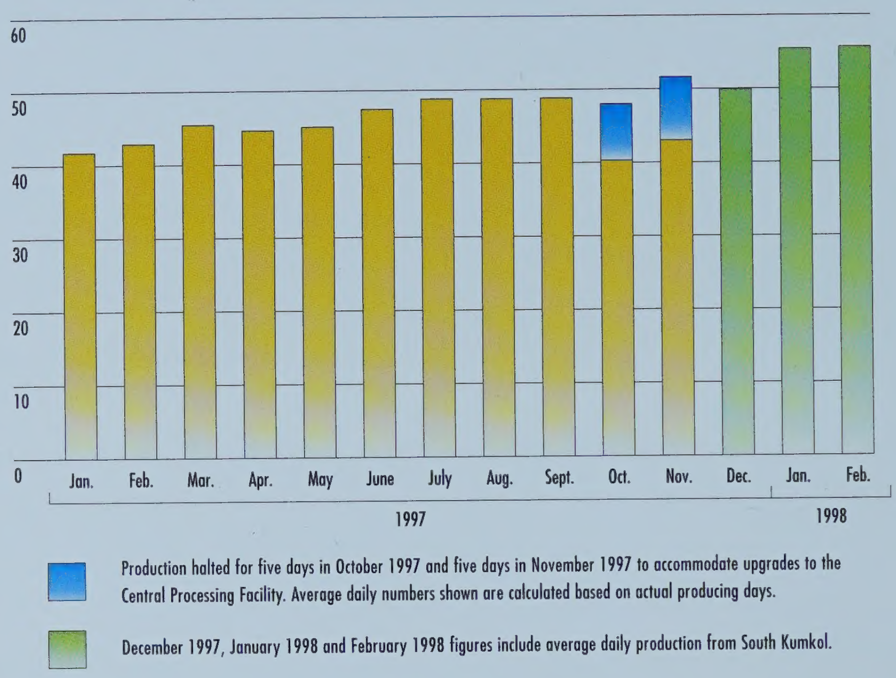
Харрикейн

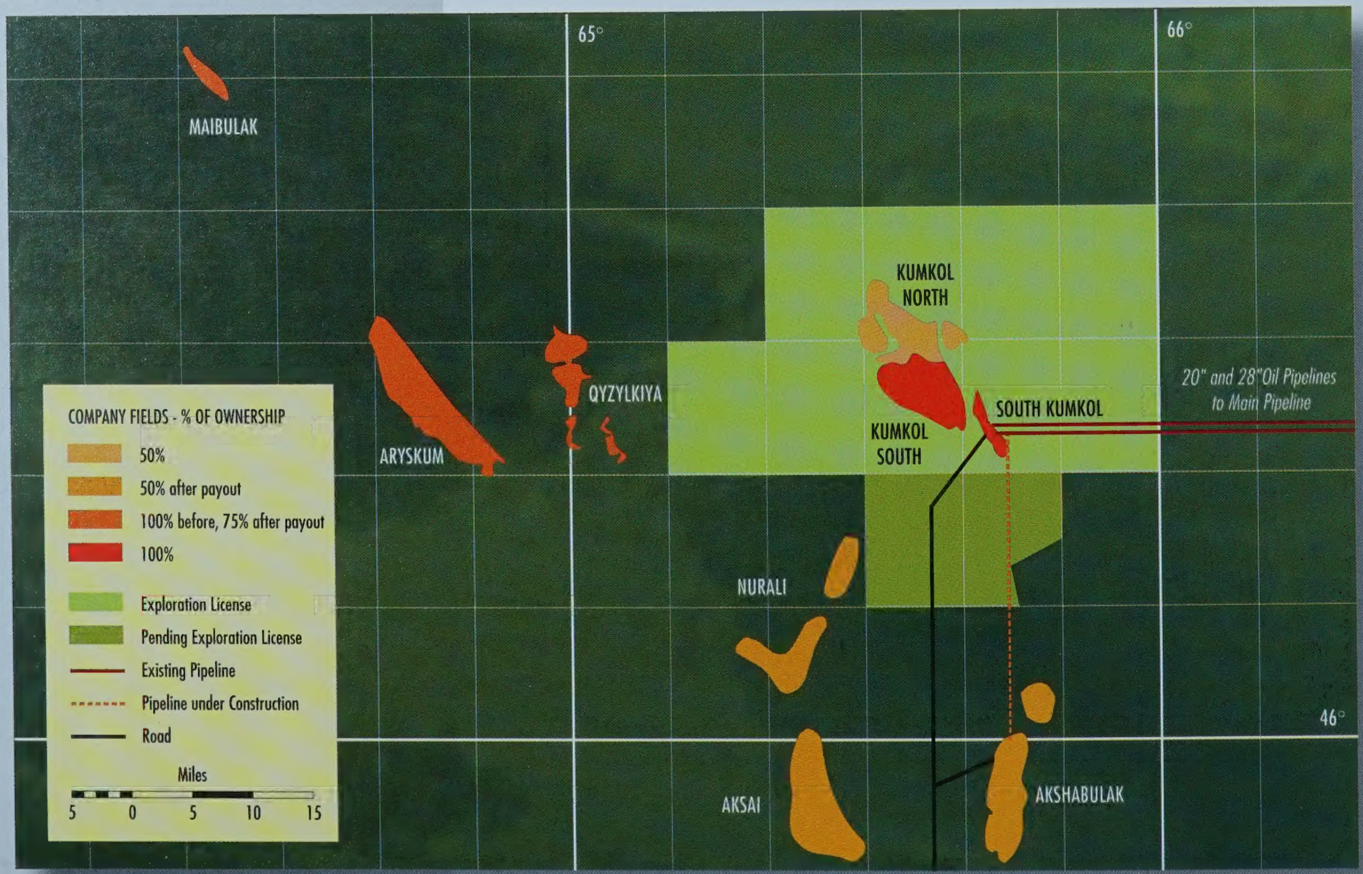
On an escalating price basis, discounted at 15 per cent, the proved plus probable reserves of Hurricane have been estimated at \$1.77 billion as at January 1, 1998.

- *Started production from the South Kumkol field on December 7, 1997. During the month, three wells were brought onto production with a combined rate of 2,180 bopd averaged over 24 days of production for December.*
- *A newly drilled well, yielding a test production rate of 1,000 bopd, will extend the south western limit of Kumkol South.*
- *Increased production from an average of 41,500 bopd in December 1996 to an average of 51,710 bopd in December 1997.*
- *Increased the selling price per barrel of unrefined crude oil from $7.07 in December 1996 to $9.50 in December 1997 (net of value added tax - VAT). Barter trades were reduced to just four per cent of current transactions and oil products are now being sold primarily on a pre-payment basis. All sales prices are posted in US dollars.*

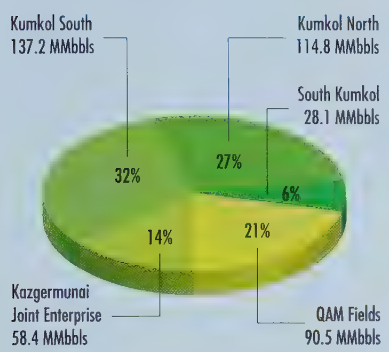
HURRICANE'S NET AVERAGE DAILY PRODUCTION

(thousands of barrels of oil per day)





Majority of Proved Reserves in Producing Fields



The 57,200 acre Kumkol field is Hurricane's primary producing field. It was discovered in 1984 and production began in 1990. To date, the field has produced over 100 million barrels of crude oil. Eight horizons have been identified in Cretaceous and Jurassic formations at shallow depths ranging from 3,300 to 4,600 feet.

Overall net production to Hurricane from the Kumkol field increased approximately 20 per cent during 1997 from a daily average of 41,500 barrels of oil in December 1996 to an average 50,025 bopd for December 1997.

For operational purposes, the field is divided into two areas: Kumkol South and Kumkol North. A separate hydrocarbons contract is in place for each area resulting in different tax and royalty structures for Kumkol South and Kumkol North.

KUMKOL SOUTH

Average Daily Production for 1997	37,580 bopd
Hurricane's Interest	100 per cent
Gross Licensed Acres	17,957
Proved Crude Oil Reserves	121.6 million barrels
Proved plus Probable Crude Oil Reserves	137.2 million barrels
Producing Wells as at December 31, 1997	183
Wells to be Drilled as per 1998 Plan	10

Hurricane owns and operates 100 per cent of the south half of the Kumkol field known as Kumkol South. This portion of the Kumkol field is Hurricane's primary producing property.

Late in 1997, Hurricane drilled four wells, one of which was at the south-west edge of the Jurassic IV formation. This well tested at 1,000 bopd from 36 feet of pay at a depth of 4,260 feet. The producing zone is approximately 118 feet above the oil/water contact. This development will result in increased revenues for the Kumkol South field as the field boundary can be moved approximately one mile further to the south-west.

Hurricane increased production at Kumkol South by 19 per cent from an average 34,500 bopd in December 1996 to an average 41,075 bopd for December 1997. Much of the increase in production resulted from the application of western production engineering techniques and equipment.

Six producing horizons have been identified in Cretaceous and Jurassic horizons. As at December 31, 1997, there were 183 wells capable of production in the south half of the Kumkol field spaced approximately 820 feet apart. Of the 183 producing wells, 137 are flowing wells.

KUMKOL NORTH

Average Daily Production for 1997 (net to Hurricane)	8,100 bopd
Hurricane's Interest	50 per cent
Gross Licensed Acres	39,243
Proved Crude Oil Reserves (Hurricane's share)	68.8 million barrels
Proved plus Probable Crude Oil Reserves (Hurricane's share)	114.8 million barrels
Producing Wells as at December 31, 1997 (total for field)	79
Wells to be Drilled as per 1998 Plan (total for field)	50

Kumkol North is operated by Kumkol-LUKoil, a joint venture between Hurricane Kumkol Munai (HKM) and LUKoil of Russia. Hurricane has a 50 per cent interest in the joint venture. Net production to Hurricane from the north half of the Kumkol field averaged 8,100 bopd during 1997. All but two of the 79 producing wells at Kumkol North are flowing wells.

During 1997, Hurricane's drilling division KEGEB drilled 11 development wells in the north half of the Kumkol field with a 100 per cent success rate. Hurricane and LUKoil are renegotiating their mutual agreements and are preparing a new plan regarding the development of Kumkol North. The plan is due to be released by year end 1998.

SOUTH KUMKOL

Average Daily Production for December 1997*	2,180 bopd (averaged over 24 days)
Hurricane's Interest	100 per cent
Gross Licensed Acres	12,947
Proved Crude Oil Reserves	17.1 million barrels
Proved plus Probable Crude Oil Reserves	28.1 million barrels
Producing Wells as at December 31, 1997	3
Wells to be Drilled as per 1998 Plan	7

*South Kumkol was brought onto production in December 1997

Hurricane holds a 100 per cent interest in the South Kumkol field which was brought onto production in December 1997. Oil first flowed from well SK1 on December 7th and the other two wells were tied in on December 18th and December 31st respectively. The 24 days of production during the month of December averaged 2,180 bopd. During the month, several choke sizes were used yielding average daily production rates of 1,432 bopd from SK1, 1,260 bopd from SK4 and 1,585 bopd from SK7.

As at April 1, 1998, the maximum daily production recorded from five wells at South Kumkol was 6,500 bopd. Hurricane expects to have an additional five to six wells on production by June 1998. By year end 1998, 11 wells should be on production at South Kumkol. Drilling is being conducted at a spacing of from 1,500 to 3,000 feet with an average depth of 4,500 feet. Produced crude is being processed at the Kumkol Central Processing Facility.

South Kumkol was discovered in 1992 and production is from three zones in Cretaceous and Jurassic formations.

QAM FIELDS

Collectively referred to as the QAM fields, Qyzylkiya, Aryskum and Maibulak contain a total of 90.5 million barrels in proved and probable reserves. Hurricane holds a 100 per cent before payout interest in those fields, and a 75 per cent interest after payout.

Qyzylkiya was discovered in 1988 and two productive horizons were identified in Cretaceous and Jurassic formations. Proved plus probable reserves of the Qyzylkiya field have been estimated to be 22.8 million barrels. To date, 26 wells have been drilled resulting in 12 oil and 3 natural gas wells at depths less than 5,000 feet. Initial production rates are expected to be 10,000 bopd with the field coming on-stream during the fourth quarter 1998 pending the construction of a 25 mile pipeline linking the field to the Kumkol pumping station.

Aryskum is located 18 miles west of Qyzylkiya and has estimated proved plus probable reserves of 43.6 million barrels. Also discovered in 1988, Aryskum has one identified productive zone in Cretaceous formation at depths less than 3,000 feet. Twenty-three wells have been drilled at Aryskum resulting in eight oil wells. The field is expected to begin producing in the year 2000 pending the completion of required infrastructure.

Discovered in 1988, Maibulak has four productive zones in Jurassic formations at depths less than 6,000 feet. Nine wells have been drilled to date and production from three wells is expected to begin in 2001.

Previously held by the Turan Petroleum Joint Enterprise (Turan), the QAM field licenses were lost by Turan in 1997. Under the terms of Hurricane's acquisition of HKM, these licenses are to be re-issued to HKM. The Maibulak license was re-issued in December 1997 and the Qyzylkiya and Aryskum licenses are expected to be re-issued shortly.

	Qyzylkiya	Aryskum	Maibulak
Hurricane's Interest	100 per cent before payout/ 75 per cent after payout	100 per cent before payout/ 75 per cent after payout	100 per cent before payout/ 75 per cent after payout
Gross Licensed Acres	69,560	42,564	3,805
Proved Crude Oil Reserves (Hurricane's share)	7.6 million barrels	9.7 million barrels	5.6 million barrels
Proved plus Probable Crude Oil Reserves (Hurricane's share)	22.8 million barrels	43.6 million barrels	24.1 million barrels
Total Number Wells Capable of Production	12	8	3
Wells to be Drilled as per 1998 Plan	0	0	0
Expected Production Date	1999	2000	2001

KAZGERMUNAI FIELDS

Hurricane has a 50 per cent interest in the Kazgermunai Joint Enterprise which in turn has a 100 per cent interest in three fields also located in the South Turgai Basin – Akshabulak, Nurali and Aksai. The other partners are RWE-DEA AG (25 per cent); Erdöl Erdgas Gommern GmbH (EEG), owned by Gas de France (17.5 per cent); and International Finance Corporation (IFC), a division of the World Bank, (7.5 per cent). The Kazgermunai Joint Enterprise was formed in 1993.

Seventeen wells have been drilled at Akshabulak since it was discovered in 1988. Phase I of the development plan includes the Jurassic-III formation of the Akshabulak field. During this phase, EEG will be the operator.

Test production from the field is currently being trucked to the Kumkol Central Processing Facility. However, the plans and funding are in place for the construction of a dedicated processing facility at Akshabulak which should be completed by year end 1998. Phase I funding ($104 million) provides for the construction of the processing plant, camp and pipeline facilities, and additional drilling. This financing was obtained for the joint enterprise by RWE-DEA, EEG and IFC. Hurricane has no financial obligation regarding this loan.

Wells capable of production have also been drilled at Nurali and Aksai. Commercial production is expected to begin in 2001 and 2002 respectively.

	Akshabulak	Nurali	Aksai
Hurricane's Interest	50 per cent*	50 per cent	50 per cent
Gross Acres	61,890	86,558	72,510
Proved Crude Oil Reserves (Hurricane's share)	9.0 million barrels	nil	nil
Proved plus Probable Crude Oil Reserves (Hurricane's share)	37.9 million barrels	17.0 million barrels	3.5 million barrels
Total Number Wells Capable of Production	17	11	7
Wells to be Drilled as per 1998 Plan	3	n/a	n/a
Expected Production Date	July 1998	2001	2002

*50 per cent after payout in Jurassic-III formation and 50 per cent interest in all other zones.

EXPLORATION LICENSE

Hurricane has an exploration license for 518,400 acres surrounding the Kumkol and South Kumkol fields. To date, 405 miles of 2-D seismic has been shot resulting in the identification of several promising structures. Six exploratory wellsites have been identified and Hurricane plans to drill four to six wells during the second half of 1998. The Company will also shoot an additional 430 miles of 2-D seismic in the area governed by the exploration license.

Hurricane is seeking a second exploration license to extend the southern border of the current exploration area. This second license will cover 240,000 acres south of South Kumkol and east of Nurali.

INFRASTRUCTURE

Hurricane's infrastructure assets include a three-stage Central Processing Facility (currently capable of handling up to 70,000 bopd and to be increased to 125,000 bopd in 1998), a pipeline gathering system connecting Kumkol and South Kumkol to the Central Processing Facility, 17 group stations, 24 satellite facilities, and production handling facilities such as line heaters, production storage tanks with a total 400,000 barrel capacity, extensive repair and fabrication shops, and warehousing and materials handling facilities. A 1,200 person camp is also located at the site as are water wells and handling systems for water flood and potable water. In-field roads and a main 125 mile road from Kyzylorda to Kumkol add to the infrastructure of the area. Kumkol is connected to a 240 kV electrical supply grid complete with substations.

Hurricane also maintains extensive facilities in Kyzylorda, the capital of the Kyzylorda Oblast (region), which include large receiving and warehousing facilities, a transportation centre, construction facilities and a corporate office building.

Hurricane's drilling and workover divisions have eight Russian drilling rigs (all capable of drilling up to 6,000 feet) and five Russian workover rigs. An American built, double-drum workover and completion rig was introduced to the fleet in August 1997. This rig has a higher rated capacity than the Russian rigs and can perform at greater depths. Plans are also in place to purchase an additional rig capable of drilling to depths of 10,000 feet.

Once commissioned, Hurricane's infrastructure will include a rail transshipment terminal. Hurricane has entered into a joint venture to complete the terminal at Druzhba, on the Kazakhstan-China border. Hurricane has a 66.7 per cent interest in the terminal which should be commissioned in the third quarter of 1998 under the name Hurricane-Dostyk.

TRANSPORTATION, REFINING AND MARKETING

From its Kumkol processing facilities, Hurricane has access to two pipelines which connect to Kazakhstan's main north-south pipeline and the country's two eastern refineries. These two pipelines (20 inches and 28 inches in diameter) have a combined daily capacity of 350,000 barrels and currently transport only Kumkol crude. The main pipeline connects to the Pavlodar refinery in the north and extends beyond Kazakhstan's border into Russia. In the south, the main pipeline connects to the Shymkent refinery and then on to Chardzhou, Turkmenistan. Hurricane plans to begin export to Turkmenistan later in 1998.

During 1997, Hurricane shipped its crude to the Shymkent refinery, which has an estimated capacity of 160,000 bopd. Some of the crude was refined at Shymkent on a toll basis whereby the refinery retained a portion of the crude as its fee for processing. Of the crude and refined products produced by Hurricane, the Company sold approximately 60 per cent directly, while 40 per cent was sold to the market by the refinery.

Hurricane negotiates contracts directly with customers and has been successful at moving domestic prices upward from \$7.07 per barrel in December 1996 to \$9.50 per barrel (net of VAT) in December 1997. The average price realized per barrel of oil sold for 1997 was \$10.64. Barter trades over the year were also reduced to just four per cent and most oil products are now being sold on a pre-payment basis. All sales prices are posted in US dollars.

Hurricane is looking to the export market to realize sales values closer to world prices. Hurricane's joint venture transshipment terminal at Druzhba will provide a direct export mechanism for Hurricane crude and refined products. The terminal will have an initial throughput capacity of 20,000 bopd with expansion plans to handle over 100,000 bopd.

This terminal is also of importance to other producers in Kazakhstan. The China National Petroleum Company (CNPC) which acquired a 60 per cent interest in Kazakhstan's Aktobemunaigaz – the company operating the second largest producing field in the country – is seeking alternative routes for transporting its crude into China. China has an accelerating market demand and currently imports about 400,000 bopd. The Hurricane-Dostyk terminal at Druzhba is within 200 miles of three Chinese refineries located in the Xinjiang province.

OPERATING COSTS

For the six months ended December 31, 1997 Hurricane's total costs before taxes averaged $8.15 per barrel of oil sold. This figure includes production costs of $3.22, general and administrative costs of $1.56, interest expense of $0.78, royalty expense of $0.78, and depreciation, depletion and amortization of $1.81 per barrel. The Company's pre-tax margin was $2.60 per barrel with income tax averaging $0.80 per barrel. Thus, the after tax income earned by the Company was $1.80 per barrel.

Operating costs are expected to be reduced significantly by streamlining operations, introducing modern equipment and rationalizing non-core assets.

LICENSES AND HYDROCARBON CONTRACTS

The government of Kazakhstan retains ownership of the country's crude oil and natural gas reserves and issues exploration and production licenses to producers. Producers have the option to negotiate hydrocarbon contracts with exploration licenses, or alternatively, producers can negotiate a hydrocarbon contract once a discovery is made and the production license has been obtained. Hydrocarbon contracts are in place for Kumkol North, Kumkol South and South Kumkol. In December 1997, Hurricane received the production license for the Maibulak field. Licenses for Aryskum and Qyzylkiya have been applied for and are expected to be issued by mid 1998. The other fields are licensed under the Kazgermunai Joint Enterprise.

GAS UTILIZATION PROJECT

Hurricane has undertaken a feasibility study with respect to the utilization of the gas currently being produced. The produced gas has a very low sulphur content and will yield a high amount of liquid hydrocarbons (butane and propane).

Hurricane is developing a gas utilization plan which will require regulatory approval prior to implementation. In its preliminary form, the plan calls for the processing of associated gas, and the utilization of the dry gas for electricity generation, and the sale of liquid products to third parties such as the regional LPG marketing and distribution companies.

Quotes for the construction of both a gas processing plant and a gas turbine power station were submitted by third parties to Hurricane in late 1997. A construction site adjacent to the Kumkol field has been selected and measuring of produced gas has been initiated.

A thorough technical and financial feasibility study outlining the engineering, construction, processing, marketing and financing issues regarding the utilization project will be developed in 1998 with approvals and construction timeline expected to be in place by the end of the year. The gas utilization project is not only of importance to Hurricane's operations, but is also of economic and social significance to the people of the Kyzylorda Oblast (region) in that it will provide competitive, reliable power to the grid.

THE ENVIRONMENT

In accordance with the terms of Hurricane's share sale purchase agreement, an assessment of pre-existing environmental liabilities at Hurricane's Kyzylorda and Kumkol properties was completed prior to the specified deadline of December 31, 1997. The initial phase of the assessment was conducted during October and November by a team of qualified environmental specialists from Kazakhstan and Canada under the direction of Hurricane's environmental manager. In a report issued December 1997, costs for the clean-up of the identified environmental damage resulting from operational activities undertaken prior to Hurricane's acquisition were estimated at approximately $14 million.

The share sale purchase agreement provides for Hurricane to recover environmental remediation costs for environmental damage resulting from operations prior to the purchase.

Upon acquiring the Company, Hurricane set out to implement international standards concerning environmental responsibility and to raise awareness of environmental issues among its oilfield workers. A permit to build a secure disposal site for Naturally Occurring Radioactive Material (NORM) was obtained and a concrete facility was subsequently constructed. A solid waste disposal site has been installed and a modernized sewage treatment plant is being constructed for the 1,200 person camp site at Kumkol.

Of special note is the positive attitude of the oilfield workers. Through training and inspection, the employees have shown an increasing commitment to environmentally responsible operating practices.

RESERVE RECONCILIATION BY FIELD

Proved plus Probable (millions of barrels)

	Kumkol Field South	Kumkol Field North	South Kumkol	Qyzylkiya	Aryskum	Maibulak	Akshabulak	Nurali	Aksai	TOTAL
Reserves as at September 1, 1997	105	100	33.1	23.1	44	24.1	38.9	17	3.5	388.7
Additions	36.8	15.6	*(5)	**(.3)	**(.4)	.0	**(1)	0	.0	45.7
Production	4.6	.8	0	0	0	0	0	0	.0	5.4
Reserves as at January 1, 1998	137.2	114.8	28.1	22.8	43.6	24.1	37.9	17	3.5	429.0

* Change due to re-evaluation of the field.

** Reserve estimates dropped due to low oil price at time of evaluation.

Summary of Remaining Crude Oil Reserves and Present Worth Values
Escalating Price Assumptions as at January 1, 1998. McDaniel & Associates Consultants Ltd.*

	Reserves (millions of barrels)		Present Worth Values (US thousands of dollars) Before Tax Discounted at				
	Property Gross	Hurricane Share (before royalties)	0 %	10 %	15 %	20 %	25 %
Proved Producing	176.3	139.4	$1,243,513	773,255	642,248	546,935	475,196
Proved Undeveloped	156.3	100.0	964,107	490,794	369,425	284,800	223,597
Total Proved	332.6	239.4	2,207,620	1,264,049	1,011,673	831,735	698,792
Total Probable	314.3	189.6	2,642,225	1,077,437	754,193	550,002	413,915
Total Proved plus Probable	646.9	429.0	4,849,845	2,341,486	1,765,866	1,381,737	1,112,707

* The future net revenues and present worth values of the Kazakhstani fields presented in this report were calculated using "Escalating Price" assumptions based on the opinion of McDaniel & Associates Consultants Ltd. of future crude oil, natural gas and natural gas product prices at January 1, 1998 together with assumptions supplied by Hurricane.

Summary of Remaining Crude Oil Reserves and Present Worth Values
Escalating Price Assumptions as at January 1, 1998. McDaniel & Associates Consultants Ltd.*
Total Company Interest by Field

	Hurricane Share of Reserves (millions of barrels)				Present Worth Values (US thousands of dollars discounted at 15 per cent)			
Field	Proved	Per cent	Proved + Probable	Per cent	Proved	Per cent	Proved + Probable	Per cent
Kumkol Field – South	121.6	51	137.2	32	$554,869	55	$634,604	36
Kumkol Field – North	68.8	29	114.8	27	229,288	23	358,658	20
South Kumkol	17.1	7	28.1	6	86,568	9	154,467	9
Qyzylkiya	7.6	3	22.8	5	30,806	3	92,390	5
Aryskum	9.7	4	43.6	10	43,958	4	199,326	11
Maibulak	5.6	2	24.1	6	20,975	2	88,639	5
Akshabulak	9.0	4	37.9	9	45,210	4	154,441	9
Nurali	–	–	17.0	4	–	–	70,480	4
Aksai	–	–	3.5	1	–	–	12,860	1
TOTAL	239.4	100	429.0	100	1,011,673	100	1,765,866	100

* The future net revenues and present worth values of the Kazakhstani fields presented in this report were calculated using "Escalating Price" assumptions based on the opinion of McDaniel & Associates Consultants Ltd. of future crude oil, natural gas and natural gas product prices at January 1, 1998 together with assumptions supplied by Hurricane.

Summary of Remaining Crude Oil Reserves and Present Worth Values

Constant Price Assumptions as at January 1, 1998. McDaniel & Associates Consultants Ltd.*

	Reserves (millions of barrels)		Present Worth Values (US thousands of dollars) Before Tax Discounted at				
	Property Gross	Hurricane Share (before royalties)	0 %	8 %	10 %	12 %	15 %
Proved Producing	176.3	137.9	$513,187	396,810	375,561	356,544	331,524
Proved Undeveloped	156.3	100.2	302,629	171,616	150,015	131,383	107.951
Total Proved	332.6	238.1	815,816	568,426	525,577	487,927	439,475
Total Probable	314.3	188.3	961,951	487,910	420,103	364,030	296,741
Total Proved plus Probable	646.9	426.4	1,777,767	1,056,336	945,680	851,957	736,216

* The future net revenues and present worth values of the Kazakhstani fields presented in this report were calculated using "Constant Price" assumptions based on the December 31, 1997 crude oil price received by Hurricane Hydrocarbons Ltd. of US$9.50 per barrel. No inflation of operating or capital costs was included.

Summary of Remaining Crude Oil Reserves and Present Worth Values

Constant Price Assumptions as at January 1, 1998. McDaniel & Associates Consultants Ltd.*

Total Company Interest by Field

	Hurricane Share of Reserves (millions of barrels)				Present Worth Values (US thousands of dollars discounted at 15 per cent)			
Field	Proved	Per cent	Proved + Probable	Per cent	Proved	Per cent	Proved + Probable	Per cent
Kumkol Field –South	121.6	51	137.2	32	$264,491	60	$305,527	41
Kumkol Field –North	68.8	29	114.8	27	72,795	16	121,292	16
South Kumkol	17.1	7	28.1	6	54,232	13	92,134	13
Qyzylkiya	8.2	4	24.5	6	11,161	2	33,471	5
Aryskum	10.1	4	45.7	11	17,961	4	81,614	11
Maibulak	5.9	2	25.4	6	7,176	2	30,210	4
Akshabulak	6.4	3	30.3	7	11,659	3	43,052	6
Nurali	–	–	17.0	4	–	–	24,759	3
Aksai	–	–	3.5	1	–	–	4,156	1
TOTAL	238.1	100	426.5	100	$439,475	100	$736,216	100

* The future net revenues and present worth values of the Kazakhstani fields presented in this report were calculated using "Constant Price" assumptions based on the December 31, 1997 crude oil price received by Hurricane Hydrocarbons Ltd. of US$9.50 per barrel. No inflation of operating or capital costs was included.

The following discussion and analysis should be read in conjunction with Hurricane's Consolidated Financial Statements and the other financial information included elsewhere herein. Hurricane maintains its accounting records and publishes its statutory financial statements in accordance with Canadian tax and corporate regulations. All figures are expressed in US dollars.

This discussion contains certain forward-looking statements within the meaning of US federal securities laws. Actual results and the timing of certain events could differ materially from those projected in the forward-looking statements due to a number of factors.

OVERVIEW

Hurricane Hydrocarbons Ltd. is an independent international energy company based in Calgary, Canada engaged in the exploration for, and development of, oil and natural gas in Kazakhstan. Hurricane owns interests in six fields, and has a contractual right to obtain, and is awaiting the reissuance of, exploration and production licenses for two additional fields, Qyzylkiya and Aryskum, all of which are located in the South Turgai Basin of central Kazakhstan.

Recent Events

Hurricane completed the Hurricane Kumkol Munai (HKM) acquisition effective November 30, 1996. The HKM acquisition was an asset purchase for accounting purposes. The Fiscal 1997 results, being June 30, 1996 to June 30, 1997, include the results of HKM for only the seven month period following the effective date of the HKM acquisition. As a result, Hurricane's Fiscal 1997 results are not indicative of the results the Company would have achieved if the HKM acquisition had occurred on July 1, 1996.

The assets acquired in the HKM acquisition account for substantially all of the production, revenues and operating income of Hurricane. On March 26, 1997, Hurricane completed an offering of special warrants which were subsequently converted into an aggregate of Cdn $110.0 million (equivalent to US $80.0 million at such date) 11 per cent senior notes (Canadian Notes) and warrants to purchase 4.95 million shares of Hurricane's common stock. Proceeds from that offering were used to pay the third and fourth installments of the purchase price of the HKM acquisition and for working capital purposes. Fiscal 1997 results reflect interest expense associated with the Canadian Notes only for the period from March 26, 1997 to June 30, 1997. On November 7, 1997, Hurricane completed the issuance and sale of $105 million of 11 3/4 per cent senior unsecured notes (US Notes). Proceeds from the issuance of the US Notes are being used primarily to make advances to HKM, which will utilize such amounts to make ongoing capital expenditures in Kazakhstan. Results of operations for the six months ended December 31, 1997 reflect interest expense associated with the US Notes only for the period from November 7, 1997 through December 31, 1997.

Change in Fiscal Year

Hurricane changed its fiscal year end from June 30 to a calendar year ending December 31 effective for the six month transition period ended December 31, 1997 (Transition 1997). The fiscal year was changed in order to present a fiscal year that is standard for most oil and gas companies of comparable size to Hurricane.

Accounting Policies

Hurricane follows the full cost method of accounting for oil and natural gas properties. Under this method, all costs relating to the exploration for, and the development of, oil and natural gas reserves are capitalized. The capitalized costs are depleted and depreciated on a unit-of-production method, based on proved reserves before royalties.

Costs of exploration in new cost centers, together with related land costs, are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties, or if impairment has occurred. Hurricane applies a ceiling test to capitalized costs to ensure that such costs do not exceed the estimated future net revenues from production of proved reserves, plus the costs of unevaluated properties less management's estimate of impairment.

Royalty Rates

Royalties are payable quarterly to the Government of Kazakhstan in cash or in-kind at the option of the Government of Kazakhstan. Royalties on Kumkol South are payable as follows: (i) 3 per cent on the first 500,000 tonnes (equivalent to 3.8 million barrels) of cumulative annual production; (ii) 6 per cent on the next 500,000 tonnes of cumulative annual production; (iii) 10 per cent on the next 500,000 tonnes of cumulative annual production; and (iv) 15 per cent on the cumulative annual production in excess of 1.5 million tonnes.

Pursuant to the terms of the HKM acquisition, Hurricane was exempted from paying royalties with respect to production from Kumkol South from December 1, 1996 through April 21, 1997. Royalties on Kumkol North are 9 per cent of production. Royalty rates with respect to the South Kumkol field are 10 per cent of production. Royalty rates with respect to each of the Akshabulak, Nurali and Aksai fields are currently the same as those payable for Kumkol South. Royalty rates have not been negotiated for Hurricane's other fields.

Taxes

Hurricane is subject to a variety of taxes including, but not limited to, income taxes, excess profits taxes, excise taxes, land taxes, property taxes, transportation taxes and mandatory contributions to social funds. Income is taxed at the Kazakhstani statutory rate of 30 per cent. Excess profits taxes are negotiated with the Government of Kazakhstan in each hydrocarbon contract. With respect to Kumkol South and the South Kumkol field, Hurricane is subject to excess profits taxes at rates which vary from 0 per cent to 30 per cent based on the internal rate of return achieved in the applicable year.

With respect to Kumkol North, Hurricane is subject to excess profits taxes at rates which vary from 0 per cent to 50 per cent based on the internal rate of return achieved in the applicable year. The Company, however, did not incur in Fiscal 1997 (12 months ended June 30, 1997), and does not anticipate incurring in Fiscal 1998 (12 months ending December 31, 1998), nor during the six months ended December 31, 1997, any excess profits taxes with respect to production from Kumkol South, Kumkol North and the South Kumkol fields. Hurricane is subject to excise tax on its sales in Kazakhstan of crude and refined products (except on heating and aviation fuel) calculated on a tonnage basis ranging from European Currency Unit (ECU) 3 to ECU 7 per tonne ($1 being equivalent to ECU 0.93 at April 1, 1998).

Preferred Shares

Hurricane owns 100 per cent of the common shares of HKM, which represent all of the common equity interest in HKM and 89.5 per cent of the total voting shares issued. The balance of the voting shares is represented by preferred shares held by current and former employees of HKM. Holders of the preferred shares are entitled to a fixed dividend equal to an aggregate of approximately $60,000 per annum. Preferred shareholders do not participate in common share dividends or other distributions except in the case of a dissolution of HKM in which case they participate pro rata in the distribution of net assets. In light of the fact that there is no ongoing entitlement to cash flow or earnings in excess of the fixed coupon, the financial statements reflect the fixed rate dividend to which the holders are entitled and do not treat the preferred shareholders as a non-controlling interest.

SIX MONTHS ENDED DECEMBER 31, 1997 COMPARED TO SIX MONTHS ENDED JUNE 30, 1997

As a result of the HKM acquisition effective November 30, 1996 and the fact that, effective December 31, 1997, Hurricane changed its fiscal year end from June 30 to December 31, the result of operations for the six months ended December 31, 1997 (Transition 1997) are not directly comparable with those for the fiscal year ended June 30, 1997. During the month of December 1996, a large part of the operations of HKM, in particular the marketing activities, were conducted in accordance with arrangements entered into by the former owners and management.

Prior to the HKM acquisition, Hurricane's operations were restricted to a minimal oil and gas production operation in Canada and the funding of its 20 per cent interest in the Turan Petroleum Joint Enterprise. The assets acquired in the HKM acquisition have accounted for virtually all of the revenues and expenses since that date. For these reasons, the most meaningful period for comparison with Transition 1997 is the six month period ended June 30, 1997 (Comparative Period). The results for the Comparative Period were not audited and have been compiled in US dollars from the unaudited quarterly reports issued by Hurricane.

Production

Production for the six months ended December 31, 1997 was approximately 8.6 million barrels compared with 8.0 million barrels in the six months ended June 30, 1997. In Transition 1997, the production from Kumkol South, which is 100 per cent owned and operated by Hurricane, was approximately 7.0 million barrels compared to 6.6 million barrels in the Comparative Period. Production attributable to Hurricane from Kumkol North, in which the Company has a 50 per cent interest through Kumkol-LUKoil, was approximately 1.6 million barrels in the six months ended December 31, 1997 compared to 1.4 million in the six months ended June 30, 1997. Production from South Kumkol which is also 100 per cent owned and operated by Hurricane, and which was brought on stream in December of 1997, was approximately 7,000 barrels in Transition 1997.

Sales

Sales volumes for the six months ended December 31, 1997 increased by 27.5 per cent to 8.8 million barrels compared to 6.9 million barrels in the Comparative Period. As a result of the increased sales volumes, revenue from oil sales in Transition 1997 were $93.9 million compared to $73.0 million for the six months ended June 30, 1997. Prices for crude oil and refined products remained relatively constant throughout the 1997 calendar year.

Interest Income

Interest income in Transition 1997 was $0.9 million compared to $0.6 million in the Comparative Period as a result of the investment of the net proceeds from the issuance of the 11 3/4 per cent US Notes.

Production Expenses

Production expenses for the six months ended December 31, 1997 were $28.4 million or approximately $3.22 per barrel of oil sold compared to $17.8 million or $2.59 per barrel of oil sold in the Comparative Period. The principal reason for the increase on a per barrel basis was a downward adjustment in the carrying value of inventory which was made at the year end to reflect the lower prices being received for heating oil in the winter of 1997-98.

Royalties

Royalties for the six months ended December 31, 1997 were $6.9 million or $0.78 per barrel of oil sold compared with $3.5 million or $0.50 per barrel of oil sold in the Comparative Period. Hurricane enjoyed a royalty holiday in respect of the production from Kumkol South from the date of the HKM acquisition to April 21, 1997. This royalty holiday resulted in the lower average royalty rate during the six months ended June 30, 1997.

General and Administrative Expenses

General and administrative expenses for the six months ended December 31, 1997 were $13.7 million compared with $14.1 million in the Comparative Period. General and administrative expenses include the costs, net of related revenues, for many of the non-oil divisions of HKM such as the transportation division and the agricultural division. As a result, this item is subject to fluctuation from time to time. On a per barrel basis, general and administrative expenses declined from $2.06 to $1.56 reflecting the increased sales volumes during the six months ended December 31, 1997 versus the six months ended June 30, 1997.

Interest

Interests costs for the six months ended December 31, 1997 were $6.9 million compared to $2.6 million for the Comparative Period. The increase was attributable to the increase in Hurricane's level of debt resulting from the issuance of the US notes. Interest costs for the six months ended June 30, 1997 reflect only the Canadian notes which Hurricane had issued in March 1997.

Depletion and Depreciation

Depletion and depreciation for the six months ended December 31, 1997 was $15.9 million compared to $14.3 million in the Comparative Period. The rates per barrel were $1.81 and $2.08 respectively. The rate

per barrel declined for the three months ended September 30, 1997 from $2.08 to $1.64 as a result of an upward revision in reserves as of September 1, 1997. The significant upward revision in reserves as at January 1, 1998 was accompanied by a significant increase in the estimated cost of developing and producing the reserves. This resulted in an increase in the rate of depletion per barrel which partly offset the previous reduction.

Income Tax

The charges for income tax represents current and deferred Kazakhstani corporate tax in respect of the profits of HKM. The charge for income tax for the six months ended December 31, 1997 was $7.1 million or 31 per cent of income before tax, compared to $9.4 million or 44 per cent for the six months ended June 30, 1997. During Transition 1997, certain structures and arrangements were put in place to charge HKM with costs which had been incurred on behalf of HKM by Hurricane Hydrocarbons Ltd. These arrangements resulted in a reduction in the consolidated effective tax rate.

Net Income

The net income for Transition 1997 was $15.8 million ($0.37 per share based on a weighted average of 42.8 million shares outstanding during the period) compared with $11.9 million for the Comparative Period and $12.4 million for Fiscal 1997 (equivalent to $0.39 per share calculated based on 31.8 million shares being the weighted average number of shares outstanding during Fiscal 1997).

Cash Flow from Operations

Cash flow from operations was $32.0 million for the six months ended December 31, 1997 ($0.75 per share calculated based on 42.8 million shares outstanding during the period) compared to $26.7 million for the six months ended June 30, 1997 and $30.2 for Fiscal 1997 (equivalent to $0.95 per share calculated based on 31.8 million shares being the weighted average number of share outstanding during Fiscal 1997).

FISCAL YEAR ENDED JUNE 30, 1997 COMPARED TO FISCAL YEAR ENDED JUNE 30, 1996

As a result of the acquisition of HKM effective November 30, 1996 and the inclusion of the results of HKM's operations for the seven months ended June 30, 1997, the results of the two periods are not directly comparable.

Production and Sales

Production for the year ended June 30, 1997 was approximately 9.3 million barrels. Production from Kumkol South, which is 100 per cent owned and operated by HKM, was approximately 7.7 million barrels. Production attributable to Hurricane from Kumkol North, in which the Company has a 50 per cent interest through Kumkol-LUKoil, was approximately 1.6 million barrels.

Sales for the year ended June 30, 1997 were $84.5 million compared to $120,000 for the prior year. HKM's sales for the seven month period from December 1, 1996 to June 30, 1997 accounted for the difference.

Interest and Other Income

Interest and other income for the year ended June 30, 1997 was $700,000 compared to $127,000 for the prior year. The increase resulted from the investment of the proceeds from the three special warrant offerings issued during Fiscal 1997.

Production Expenses

Production expenses for the year ended June 30, 1997 amounted to $23.6 million compared to $48,000 for the prior year. The increase resulted from the production expenses associated with HKM operations for the seven month period from December 1, 1996 to June 30, 1997.

Royalties

Royalties for the year ended June 30, 1997 were $3.5 million compared to $15,000 for the prior year. Royalties as reported in the June 30, 1997 financial statements represent royalties for HKM's share of production from Kumkol North and for the period from April 21, 1997 through June 30, 1997 on HKM's production from Kumkol South. Pursuant to the terms of the HKM acquisition share sale purchase agreement, no royalties were payable to the Government of Kazakhstan prior to April 21, 1997 on HKM production from Kumkol South. Future production from Kumkol South will not be eligible for this exemption, and as a result, royalties for production from Kumkol South will be higher in future periods.

General and Administrative Expenses

Prior to December 1, 1996, the greater part of Hurricane's general and administrative expenses were capitalized in recognition of the fact that most of Hurricane's efforts were directed towards the acquisition of HKM. Commencing December 1, 1996, all general and administrative costs have been expensed. Hurricane's general and administrative expenses (which include the net cost of the non-oil and gas activities of HKM) amounted to $16.0 million for the year ended June 30, 1997 compared to $67,000 for Fiscal 1996.

Depletion and Depreciation

The charge for depletion and depreciation was $17.0 million for the year ended June 30, 1997 compared to $63,000 for Fiscal 1996. The increase recognizes the increased production as a result of the HKM acquisition, the acquisition costs of HKM and the estimated future capital costs required to produce Hurricane's proved reserves.

Income Tax

The charge for income tax of $10.0 million represents current and deferred Kazakhstani corporate tax in respect of the profits of HKM for the seven month period from December 1, 1996 to June 30, 1997. Hurricane's effective income tax rate exceeds the statutory 30 per cent rate of income taxes in Kazakhstan because certain of the expenses incurred by HKM are not deductible in calculating income taxes. Also, the tax benefits related to certain expenses incurred in Canada had not been recognized.

Net Income

Net income for the year ended June 30, 1997 was $12.5 million compared with $62,000 for the prior year. Net income per share was $0.39 for the year ended June 30, 1997, calculated based upon 31.8 million shares (weighted average number of common shares outstanding in Fiscal 1997) compared with $0.01 for the prior year, calculated based upon 11.1 million shares (the weighted average number of common shares outstanding in Fiscal 1996). The weighted average number of common shares increased as a result of the three special warrant offerings.

Cash Flow from Operations

Cash flow from operations for the year ended June 30, 1997 was $30.2 million compared to $125,000 for the prior year.

YEAR ENDED JUNE 30, 1996 AND PRIOR PERIODS

Hurricane's activities prior to the year ended June 30, 1996 consisted of its activities in Canada which are not considered material in the context of its current operations and its investment in Kazakhstan which was conducted through Turan Petroleum. During the year ended June 30, 1996, Hurricane's investment through Turan Petroleum amounted to $2.3 million which was funded from the proceeds of a $4.1 million equity offering by Hurricane.

LIQUIDITY AND CAPITAL RESOURCES

Financing Activities

On November 7, 1997, Hurricane completed the private placement of an aggregate principal amount of $105.0 million of US Notes for net proceeds of approximately $100.6 million. The net proceeds from the issuance of the US Notes have been used primarily to make advances to HKM, which has utilized such amounts to make ongoing capital expenditures in Kazakhstan. The portion of the proceeds which has not yet been advanced to HKM as at December 31, 1997 has been invested in short-term investments.

On September 5, 1996, Hurricane completed the private placement of 12,223,000 special warrants representing equity for net proceeds of approximately $37.5 million. On November 26, 1996, the Company completed the private placement of 10,476,000 special warrants representing equity for net proceeds of approximately $38.5 million. Effective March 26, 1997, Hurricane completed the private placement of 110,000 special warrants representing debt for net proceeds of approximately $76.0 million. The net proceeds from the three offerings were used to pay the $120.0 million purchase price for HKM and related expenses with the remaining amounts used for general working capital purposes.

Upon conversion of the special warrants issued in March 1997, an aggregate of 110,000 senior unsecured notes (in the principal amount of Cdn $1,000 each) and an aggregate of 4,950,000 Series 5 warrants were issued. Each Series 5 warrant, together with the sum of Cdn $6.25 (equivalent to $4.37 as at December 31, 1997) will entitle the holder to purchase one additional common share until March 26, 2002. If all of the Series 5 warrants are exercised, Hurricane would receive an additional Cdn $30.9 million (equivalent to $22.6 million as at December 31, 1997).

INVESTING ACTIVITIES

During the six months ended December 31, 1997, Hurricane invested $47.3 million principally on capital expenditures relating to activities in Kazakhstan.

During the year ended June 30, 1997, Hurricane invested $152.6 million which consisted of $124.7 million (including capitalized acquisition costs of $4.7 million and less cash-on-hand of HKM of $2.0 million) for the HKM acquisition and $27.9 million (net of dispositions) on capital expenditures relating to activities in Kazakhstan.

In addition to ongoing operations, Hurricane is committed, pursuant to the terms of the HKM acquisition share sale purchase agreement, to invest for the benefit of HKM, on or before December 31, 2002, the local currency equivalent of $280.0 million in capital expenditures, investments or other items in Kazakhstan which may be treated as capital assets for balance sheet purposes as determined by International Accounting Standards. Hurricane intends to make such expenditures to exploit and develop existing fields, explore for new additional reserves, and enhance future production volumes and reserves.

The required expenditures may be made either from capital contributions to HKM or from other sources including cash flows of HKM. Hurricane is not required to make any portion or portions of the required investments prior to December 31, 2002. However, Hurricane is required to report, annually to the Government of Kazakhstan, the amount invested in each year. If less than all of the required investment is made by December 31, 2002, Hurricane is required to pay, in lieu of any amount not invested, a penalty of 15 per cent of the amount by which its aggregate investments are less than $280.0 million. Under the arrangements for the granting of production licenses in Kazakhstan, Hurricane is subject to certain commitments for expenditures to develop particular fields. Expenditures pursuant to these commitments are credited against the $280.0 million aggregate obligation in connection with the HKM acquisition.

Hurricane's estimated capital expenditure budget for Fiscal 1998 is $169 million. This budget includes approximately $50 million for exploration and development drilling; $28 million for workovers and recompletions; $74 million for construction of infrastructure and production facilities; $14 million for the construction of an oil transshipment terminal on the Kazakhstan-China border and $3 million for environmental projects. These estimates exceed the capital spending program taken into account in preparing the McDaniel Report because McDaniel did not take into account the full utilization of the proceeds of the issuance of the US Notes. Management believes that cash-on-hand, including the net proceeds of the issuance and sale of the US Notes, and cash expected to be provided by operating activities will be sufficient to meet its cash requirements for operations and capital expenditures through December 31, 1998.

Although Hurricane currently expects to expend the foregoing amounts on capital expenditures, it continually re-evaluates its capital spending plans and may determine to delay or modify certain of the foregoing plans in light of various factors including the relative attractiveness of alternative investment opportunities, revised estimates of the costs of the various projects and the plans of its joint venture partners. In addition, Hurricane is continuing to evaluate the opportunities presented by the HKM acquisition and may undertake capital spending projects in addition to those described above.

Gas and gas liquids produced in association with the oil in the Kumkol field are currently being flared. In order to reduce or eliminate HKM's gas flaring practices, and at the same time, improve the supply of electricity to the region, a feasibility study regarding the extraction of the gas and liquids from the oil stream and the construction of an electric generation facility has been initiated. In the event the decision is made to proceed with the project as currently envisioned and financing is not provided by the joint venture partner, additional funds would have to be raised by Hurricane to fund HKM's share of project costs. Hurricane is presently reviewing a feasibility study prepared by Energy Center EC Kazakhstan, an independent engineering firm which has presented a number of alternatives and specifications with estimated costs ranging from $69.7 million to $84.9 million. Hurricane may elect to proceed with such a project with one or more financing and operating partners or to proceed with an alternative gas utilization program. In addition, Hurricane is reviewing a conceptual design for gas utilization completed by ABB Lummus Global in Germany. The Fiscal 1998 budget includes $3 million for the installation of a gas turbine and $200,000 for additional feasibility studies.

Working Capital

As at December 31, 1997, on a consolidated basis, Hurricane had a working capital of $125.6 million, including cash and cash equivalents of $25.6 million, and short-term investments of $77.3 million.

RISKS

Commodity Price Risks

To date, Hurricane has sold virtually all of its production in the domestic market in Kazakhstan at prices which, for the most part have been significantly below the equivalent world market price, adjusted for transportation and quality differentials. The significant drop in world oil prices which occurred in the first few months of 1998 had no noticeable impact on the prices received for the HKM's production. In the future, Hurricane plans to increase production levels and to sell the incremental production over current levels in the export market at prices which would be more closely tied to world market prices. At that time, fluctuations in world prices will have a greater impact on Hurricane's financial results. To date, Hurricane has not used hedging programs to protect against fluctuations in oil prices because of the lack of correlation between Hurricane sales prices and benchmark world market prices.

Foreign Exchange Risks

Hurricane Hydrocarbons Ltd. reports in US dollars and has operations which use US dollars, Canadian dollars and Kazakhstani tenge. Hurricane posts its sales prices in US dollars and although sales are, for the most part, made in tenge, payment is usually made before delivery so that the exposure to loss through a reduction in value of the tenge is minimized. Most of Hurricane's operating costs are denominated in tenge, and thus tenge bank balances are maintained in addition to US and Canadian dollar balances. There is no significant forward market in the tenge, accordingly, no real hedging instruments are available. Hurricane's exposure to changes in the value of the tenge is restricted to the net amount of the tenge bank balance and the tenge accounts receivable and payable and is partly offset by the ongoing requirement for tenge for regular operating costs.

In March, 1997, Hurricane issued five year Canadian dollar notes in an aggregate principal amount of Cdn $110 million. This was equivalent to approximately $80 million at the time of issue and at December 31, 1997 was equivalent to approximately $77 million. Hurricane has elected not to hedge this exposure, and at this time, is exposed to changes in the value of the Canadian dollar against the US dollar. The Company continues to review its alternatives in this regard and may choose to hedge the exposure at some time in the future.

Risks of Doing Business in Kazakhstan

Hurricane's operations and assets are located in the Republic of Kazakhstan, a member of the Commonwealth of Independent States. Kazakhstan has been independent of the former Soviet Union since December 16, 1991 and is ruled by a President and a Parliament which are elected by the general population. There are risks inherent in operating in a country which has been independent for such a relatively short period of time and which does not yet have an extended history of political and economic stability. In light of this, Hurricane has purchased an insurance policy to protect itself from certain of the political risks to which it is exposed.

Year 2000 Compliance

Due to the recent purchase and installation of the Company's information systems, Hurricane and its subsidiaries have no material year 2000 exposure. All business applications, technical systems, desktop tools and operating systems currently in use by Hurricane in Calgary, Almaty and Kyzylorda are in full compliance with the year 2000 issue. These systems were purchased and installed in 1997.

Hurricane has a centralized Information Systems department structure through which all information technology purchases flow. This purchasing and control system was in place for all past purchases and assures the Company that all future purchases meet established standards such as year 2000 compliance. Furthermore, much of Hurricane's data prior to 1997 was not maintained electronically. Therefore, the year 2000 will have no material effect on historical data. Hurricane maintains no integrated systems with third parties or suppliers.

As a result, management does not anticipate that Hurricane will incur significant operating expenses or be required to invest heavily in computer systems improvements to be year 2000 compliant. Nor does the company anticipate that business operations will be disrupted or that its customers will experience an interruption of deliveries or services as a result of the millennium change.

MANAGEMENT'S REPORT

All information in this annual report is the responsibility of management. The financial statements necessarily include amounts that are based on estimates, which have been objectively developed by management using all relevant information. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

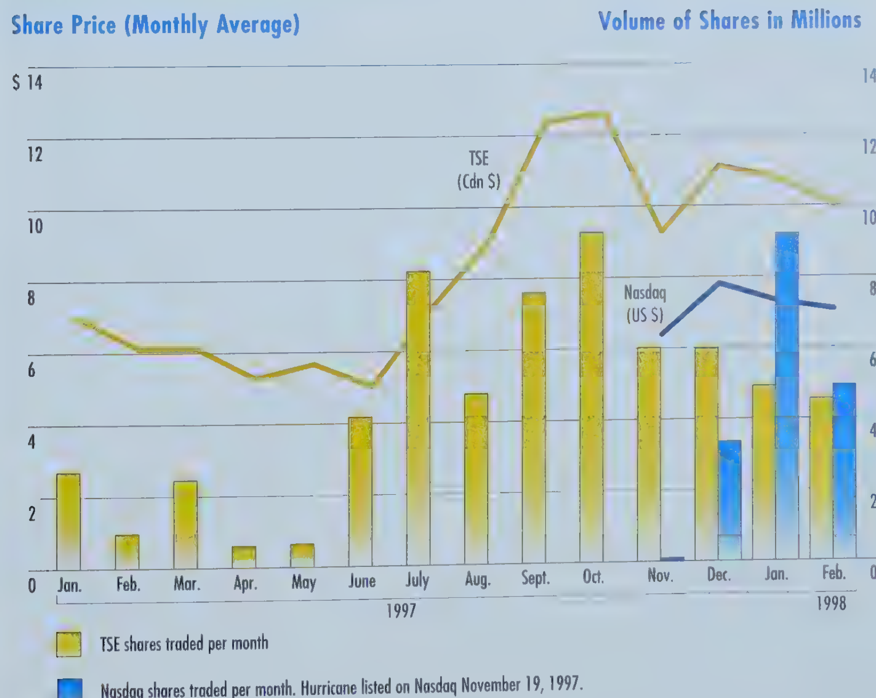
Management maintains systems of internal accounting control designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Audit Committee of the Board of Directors, comprised of one management and two non-management directors, has reviewed the financial statements with management and Deloitte & Touche. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

JOHN J. KOMARNICKI
President and Chief Executive Officer

RICHARD P. NORRIS
Vice President Finance and Chief Financial Officer

HURRICANE SHARE PRICES AND VOLUMES



INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF HURRICANE HYDROCARBONS LTD.

We have audited the consolidated balance sheets of Hurricane Hydrocarbons Ltd. (the "Corporation") as at December 31, 1997 and June 30, 1997, and the consolidated statements of income and retained earnings, and changes in financial position for the six months ended December 31, 1997 and the year ended June 30, 1997. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and June 30, 1997, and the results of its operations and the changes in its financial position for the six months ended December 31, 1997 and the year ended June 30, 1997 in accordance with generally accepted accounting principles in Canada.

The consolidated balance sheet as at June 30, 1996 and the consolidated statements of income and retained earnings and changes in financial position for the year ended June 30, 1996 were reported on by another firm of Chartered Accountants who issued an unqualified opinion in their report dated September 5, 1996.

Deloitte & Touche

DELOITTE & TOUCHE
Chartered Accountants

Calgary, Alberta
April 2, 1998

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(Expressed in United States dollars)

	Six Months Ended December 31 1997	Year Ended June 30 1997	1996
Revenue			
Sales	$ 93,907,303	$ 84,473,927	$ 119,597
Interest and other income	896,875	700,349	127,495
	94,804,178	85,174,276	247,092
Expenses			
Production	28,444,098	23,604,851	47,703
Royalties	6,850,504	3,471,509	14,574
General and administrative	13,728,921	15,990,654	67,054
Interest on long-term debt	6,902,840	2,645,356	—
Depletion and depreciation	15,932,966	17,049,249	62,869
Foreign exchange loss (gain)	31,594	(65,139)	—
	71,890,923	62,696,480	192,200
Income before Income Taxes	22,913,255	22,477,796	54,892
Income Taxes (note 7)			
Current provision (recovery)	7,069,467	9,609,725	(7,587)
Deferred provision	—	360,000	—
	7,069,467	9,969,725	(7,587)
Net Income	15,843,788	12,508,071	62,479
Retained Earnings (Deficit), Beginning of Period	12,418,403	(57,766)	(120,245)
Preferred share dividends	(31,750)	(31,902)	—
Retained Earnings (Deficit), End of Period	$28,230,441	$ 12,418,403	$ (57,766)
Income per Share (note 10)	$ 0.37	$ 0.39	$ 0.01
Weighted average number of shares outstanding	42,825,862	31,802,015	11,142,245

CONSOLIDATED BALANCE SHEETS

(Expressed in United States dollars)

	December 31 1997	June 30 1997
Assets		
Current		
Cash and cash equivalents	$ 25,633,922	$ 22,043,270
Short-term investments	77,261,540	—
Accounts receivable	42,445,652	61,080,826
Inventory	16,969,592	20,071,677
Prepaid expenses	3,378,667	868,207
	165,689,373	104,063,980
Investment and loans receivable (note 3)	2,901,063	492,802
Capital assets (note 4)	178,764,362	147,218,526
Deferred financing costs, net	7,943,103	3,787,349
	$ 355,297,901	$ 255,562,657
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 22,810,411	$ 42,097,395
Prepayments for refined products	11,574,813	—
Taxes payable and accrued	5,742,872	19,538,058
	40,128,096	61,635,453
Long-term debt (note 5)	180,499,440	77,978,088
Provision for future site restoration costs	439,610	256,137
Deferred foreign exchange gain	2,796,904	338,873
Deferred income taxes	360,000	360,000
Preferred shares of subsidiary (note 2)	136,000	136,000
	224,360,050	140,704,551
Commitments and Contingencies (note 9)		
Shareholders' Equity		
Share capital (note 6)	102,707,410	102,439,703
Retained earnings	28,230,441	12,418,403
	130,937,851	114,858,106
	$ 355,297,901	$ 255,562,657

Approved by the Board

LOUIS W. MacEACHERN
Director

JOHN J. KOMARNICKI
Director

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Expressed in United States dollars)

	Six Months Ended December 31 1997	Year Ended June 30 1997	1996
CASH PROVIDED BY (USED IN):			
Operating Activities			
Net income	$ 15,843,788	$ 12,508,071	$ 62,479
Items not affecting cash			
Depletion and depreciation	15,932,966	17,049,249	62,869
Other non-cash charges	252,130	270,133	—
Deferred income taxes	—	360,000	—
Cash flow from operations	32,028,884	30,187,453	125,348
Changes in non-cash operating working capital items	(79,542,098)	(27,612,528)	(19,343)
	(47,513,214)	2,574,925	106,005
Financing Activities			
Proceeds from issue of share capital, net of share issuance costs	267,707	14,535,692	4,388,252
Proceeds from issue of special warrants, net of issuance costs	—	76,027,994	—
Proceeds on issue of long-term debt, net of issuance costs	100,571,500	76,061,854	—
Preferred share dividends	(31,750)	(31,902)	—
Repayment of notes receivable	—	62,122	161,051
Funds provided from financing	100,807,457	166,655,760	4,549,303
Investing Activities			
Acquisition of OJSC Hurricane Kumkol Munai (note 2)	—	(124,666,000)	—
Cash on hand in OJSC Hurricane Kumkol Munai at date of acquisition (note 2)	—	1,993,000	—
	—	(122,673,000)	—
Capital expenditures, net of dispositions	(47,295,330)	(27,865,514)	(2,308,013)
Investment and loans receivable	(2,408,261)	—	—
Funds used for investing	(49,703,591)	(150,538,514)	(2,308,013)
Increase in Cash	3,590,652	18,692,171	2,347,295
Cash Position, Beginning of Period	22,043,270	3,351,099	1,003,804
Cash Position, End of Period	$ 25,633,922	$ 22,043,270	$ 3,351,099

1. Significant Accounting Policies

Principles of consolidation

Hurricane Hydrocarbons Ltd. ("Hurricane" or the "Corporation") is an independent international energy corporation engaged in the acquisition, exploration, development and production of oil, principally in the Republic of Kazakhstan. Until the fall of 1996, all of the Corporation's operations were conducted in western Canada.

The consolidated financial statements of Hurricane have been prepared in accordance with generally accepted accounting principles in Canada and include the accounts of the Corporation, which is incorporated under the laws of Alberta, together with the accounts of its subsidiaries which are incorporated under the laws of Canada, Cyprus or Kazakhstan.

As more fully explained in note 2, effective November 30, 1996, the Corporation acquired all of the common shares of GAO Yuzhneftegaz, now known as OJSC Hurricane Kumkol Munai ("HKM") from the Republic of Kazakhstan. Accordingly, the consolidated financial statements for the year ended June 30, 1997, as presented, include the operations of HKM as at and for the seven months ended June 30, 1997. Hurricane's activities in Kazakhstan account for substantially all of the revenues, income and assets as reported in the consolidated financial statements from the date of acquisition of HKM.

Change in year end

In 1997, the Corporation changed its year end from June 30 to December 31.

Joint ventures

Certain of Hurricane's activities are conducted jointly with others through both incorporated and unincorporated joint ventures. Accordingly, these consolidated financial statements reflect Hurricane's proportionate interest in such activities.

Foreign currency translation

As the Corporation's operations are principally international and are primarily denominated in United States dollars, the Corporation has chosen to report in United States dollars. Prior years' financial statements previously expressed in Canadian dollars have been translated to United States dollars using the rate of exchange in effect at June 30, 1996.

Subsequent to June 30, 1996, foreign currency amounts, including those of foreign subsidiaries, are expressed in United States dollars using the temporal method as follows:

- Monetary assets and liabilities — at the rate in effect at year end;
- Other assets and liabilities — at historical rates; and
- Revenues and expenses — at the average exchange rates during the period, except for provisions for depletion and depreciation which are translated on the same basis as the related assets.

Gains or losses resulting from such conversions are charged to operations except that gains or losses on conversion to United States dollars of long-term monetary assets and liabilities are deferred and amortized over the remaining lives of the assets or liabilities.

Cash and cash equivalents

Cash and cash equivalents includes term-deposits with original maturity terms not exceeding 90 days.

Short-term investments

Short-term investments consist of investments in high-grade corporate bonds and government treasury bills with original maturity terms ranging between 91 days and one year. These securities are recorded at their December 31, 1997 market values, with resulting holding gains or losses recorded in interest income. The unrealized holding gain on short-term investments was $786,898 at December 31, 1997.

Inventories

Inventories of crude oil are recorded at current estimated selling price net of related expenses. Inventories of oil products and other inventories are recorded at the lower of cost and net realizable value.

Petroleum and natural gas properties

Hurricane follows the full cost method of accounting for oil and gas operations whereby all exploration and development expenditures are capitalized on a country-by-country cost centre basis. Such expenditures include land acquisition costs, geological and geophysical expenses, carrying charges for unproved properties, costs of drilling both productive and non-productive wells, gathering and production facilities and equipment. Proceeds from sales of oil and gas properties are recorded as reductions of capitalized costs, unless the cost centre's depreciation and depletion rate would change by a factor of 20 per cent or more, whereupon gains or losses are recognized in income. Maintenance and repair costs are expensed as incurred, while improvements and major renovations to assets are capitalized.

Costs accumulated within each cost centre, including provision for necessary future development and site restoration expenditures, are depreciated and depleted using the unit-of-production method based upon estimated proved reserves before royalties. Significant development projects and expenditures on exploration properties are excluded from the depletion calculation prior to assessment of the existence of proved reserves. Costs for excluded properties are evaluated periodically for impairment.

Capitalized costs are subject to a year-end ceiling test. Costs accumulated in each cost centre are limited to the estimate of future net revenues from production of estimated proved reserves at prices and costs in effect at the year end, plus the cost or less any impairment of such costs. Costs accumulated in all cost centres are also evaluated after consideration of estimated future interest expense, administrative costs, future site restoration costs and income taxes attributable to those operations.

Future site restoration

The Corporation provides for future site restoration and abandonment costs using the unit-of-production method, based on total proven reserves. The provision is included with depletion and depreciation expense.

Depreciation

Depreciation is provided on other capital assets using the declining balance method at the rate of 20 per cent per annum.

Financing charges

The costs of arranging debt financing are deferred and amortized over the term of the debt as interest expense using the straight-line method.

Long-term debt

The difference between the value ascribed to the Canadian Notes and the face value of the notes (the "Discount") is amortized as interest expense on a straight-line basis over the term of the debt (note 5).

Revenue recognition

Sales of petroleum and refined products are recorded in the period in which the sale occurs. Produced but unsold products are recorded as inventory until sold.

Royalties

Royalties are recorded on the accrual basis and are paid to the government of the Republic of Kazakhstan in accordance with negotiated hydrocarbon agreements on a field-by-field basis. The Corporation's royalties, which are either fixed or are based on a sliding scale related to production in the specific field for a calendar year, vary from 3 per cent to 15 per cent.

Financial instruments

The Corporation has estimated the fair value of its financial instruments which include cash and term deposits, accounts receivable, notes receivable, accounts payable, and accrued liabilities and long-term debt. The Corporation has used valuation methodologies and market information available as of year end and has determined that of such financial instruments, the carrying amounts approximate fair value in all cases except for notes receivable (note 3).

Financial risks

The Corporation is exposed to credit risk to the extent of non-performance by third parties in the payment of receivable amounts.

The Corporation is also exposed to foreign currency risk to the extent that transactions and balances are denominated in currencies other than United States dollars. This risk could be significant for those transactions and balances denominated in the currency of Kazakhstan, the tenge, as the currency is relatively new. The currency has been stable recently, however it has experienced rapid devaluation in the recent past.

The Corporation currently negotiates the price it receives for its crude oil and refined products which it sells in Kazakhstan. Sales prices are not directly dependent on world commodity prices for crude oil.

Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are subject to measurement uncertainty. Actual results could differ from and effect the results reported in these consolidated financial statements.

2. Acquisition of HKM

On August 28, 1996, the Corporation entered into a Share Sale-Purchase Agreement (the "Agreement") with the Republic of Kazakhstan for the purchase of 100 per cent of the issued common shares of HKM, a state owned joint stock company, operating in the South Turgai Basin, located in south central Kazakhstan.

HKM also has a single class of preferred shares outstanding which are owned by current and former employees of HKM. The preferred shares are entitled to one vote per share which represents 10.5 per cent of the aggregate voting shares. The preferred shares are entitled to an aggregate dividend preference of approximately $60,000 per annum and are non-participating except in a liquidation of HKM, in which event the holders of the preferred shares will participate to the extent of 10.5 per cent of net assets.

Under the terms of the Agreement, which was finalized and signed on December 12, 1996, the purchase price was $120 million. Of the purchase price, $30 million was paid on each of September 5, 1996, December 12, 1996, March 31, 1997 and April 30, 1997.

The acquisition of HKM was accounted for under the purchase method with an effective date of November 30, 1996. Hurricane's aggregate purchase price of $120,000,000 plus costs incurred by Hurricane associated with its acquisition of HKM of $4,666,000, was assigned to the assets and liabilities of HKM, including joint venture interests, as follows:

(Expressed in United States dollars)

Cash		$ 1,993,000
Accounts receivable		33,428,000
Prepayments to suppliers		892,000
Inventory		6,581,000
Capital assets		130,178,000
		173,072,000
less:		
Accounts payable and accrued liabilities	$ 48,270,000	
Preferred shares of subsidiary	136,000	48,406,000
Aggregate consideration		$ 124,666,000

3. Investment and Loans Receivable

Notes Receivable

During 1994, the Corporation advanced funds to certain officers and directors to enable them to purchase Class A common shares from treasury pursuant to share options. The advances are non-interest bearing with no fixed terms of repayment, supported by demand promissory notes. The Corporation does not anticipate demanding any repayment on these notes during calendar 1998; consequently, these notes are reflected as non-current assets. Due to the terms of the notes, the fair value cannot be determined.

Investment

During the year, the Corporation entered a joint venture agreement for the construction and operation of an oil transfer terminal (the "Transfer Terminal") on the Chinese border. The Corporation is committed to fund the construction of the Transfer Terminal in the amount of $5,973,000 in return for a 66.7 per cent ownership share. At year end, the Corporation had advanced $1.0 million towards this commitment.

Loan Receivable

The Corporation loaned $1.4 million to secure a contract for the management and related services required for the operation of the Transfer Terminal. The contract expires November 30, 1999 and the Corporation is committed to loan a maximum of $2.6 million. This loan is secured by assets and is due December 31, 2001, including accrued interest at the rate of 11.45 per cent.

Investment and loans receivable include the following:

(Expressed in United States dollars)

	December 31 1997	June 30 1997	June 30 1996
Notes receivable	**$ 476,043**	$ 492,802	$ 554,924
Investment	**1,000,020**	—	—
Loan receivable	**1,425,000**	—	—
	$ 2,901,063	$ 492,802	$ 554,924

4. Capital Assets

(Expressed in United States dollars)

	December 31, 1997		
	Cost	Accumulated Depreciation	Net Book Value
Oil and gas properties and equipment			
Canada	$ 1,397,049	$ 608,886	$ 788,163
Kazakhstan	207,985,275	31,738,014	176,247,261
	209,382,324	32,346,900	177,035,424
Other capital assets	2,469,506	740,568	1,728,938
	$ 211,851,830	$ 33,087,468	$ 178,764,362

	June 30, 1997		
	Cost	Accumulated Depreciation	Net Book Value
Oil and gas properties and equipment			
Canada	$ 1,329,186	$ 584,975	$ 744,211
Kazakhstan	160,789,753	16,266,000	144,523,753
	162,118,939	16,850,975	145,267,964
Other capital assets	2,437,562	487,000	1,950,562
	$ 164,556,501	$ 17,337,975	$ 147,218,526

Excluded from the depletable base are undeveloped properties of $48,313,000 (June 30, 1997 – $48,313,000).

5. Long-Term Debt

Canadian Notes

On March 26, 1997, Hurricane issued Cdn $110 million (US $80 million) of special warrants under a Special Warrant Indenture (the "Indenture"), dated March 26, 1997. Under the terms of the Indenture, each special warrant was exercisable by the holder thereof, at no additional cost, into one unit, with each unit comprised of one $1,000 principal amount Note and 45 Series 5 warrants (see note 6(h)). In accordance with generally accepted accounting principles for compound financial instruments, Cdn $107,525,000 (US $78,245,525) was ascribed to long-term debt and the remaining Cdn $2,475,000 (US $1,801,048) to share capital. As of July 27, 1997, all of the special warrants were exercised or were deemed to have been exercised. As a result, Hurricane issued Cdn $110 million of 11 per cent senior unsecured notes due 2002 (the "Canadian Notes") under the Indenture. As at December 31, 1997, the unamortized discount is $1,472,080 (June 30, 1997 – $1,703,187).

The Canadian Notes will mature on March 27, 2002 and all outstanding principal will be repayable on maturity. Interest on the Canadian Notes accrues at the rate of 11 per cent per annum and is payable on June 1 and December 1 in each year through 2001, commencing June 1, 1997, with the final interest payment on March 26, 2002.

The Canadian Notes are general unsecured obligations of Hurricane and rank equally in right of payment to all existing and future unsecured debt of Hurricane not subordinated by its express terms. The Canadian Notes rank senior in right of payment to any and all existing and future subordinated debt of Hurricane. The Canadian Notes are not callable or otherwise redeemable at the option of the Corporation at any time prior to their stated maturity date.

US Notes

On November 7, 1997, Hurricane issued $105 million of 11 3/4 per cent senior unsecured notes due 2004 (the "US Notes"). The US Notes will mature on November 1, 2004 and all outstanding principal will be repayable on maturity.

Interest on the US Notes accrues at the rate of 11 3/4 per cent per annum and is payable on May 1 and November 1 of each year, commencing May 1, 1998.

The US Notes are general unsecured obligations of Hurricane and rank equally in right of payment with all existing and future unsecured debt of Hurricane which is not subordinated by its express terms. The US Notes rank senior in right of payment to any and all existing and future unsecured subordinated debt of Hurricane.

The US Notes are redeemable at the option of Hurricane, in whole or in part, at any time on or after November 1, 2001 at redemption prices varying from 100 per cent to approximately 109 per cent of the principal amount thereof, plus accrued and unpaid interest, liquidated damages, and additional amounts, if any, to the date of redemption depending on the redemption date. Notwithstanding the foregoing, any time prior to November 1, 2000, Hurricane may redeem up to 33 1/3 per cent of the original aggregate principal amount of the US Notes with the net proceeds of a public offering at a redemption price of 111 3/4 per cent of the principal amount thereof, plus accrued and unpaid interest, liquidated damages and additional amounts, if any to the date of redemption; provided that at least 66 2/3 per cent of the original aggregate principal amount of the Senior Notes remains outstanding immediately after the occurrence of such redemption. The Senior Notes also may be redeemed at the option of Hurricane, in whole but not in part, at any time at a redemption price equal to the principal amount thereof plus accrued an unpaid interest, liquidated damages and addition amounts, if any, to the redemption date in the event of certain changes in certain applicable tax laws or in official interpretations thereof.

Principal repayments of long-term debt for the five succeeding years and thereafter are as follows:

(Expressed in United States dollars)

1998	$ —
1999	—
2000	—
2001	—
2002	76,971,520
Subsequent years	105,000,000
	$ 181,971,520
Unamortized discount on Canadian Notes	(1,472,080)
Long-term debt	$ 180,499,440

6. Share Capital

a) Authorized share capital consists of an unlimited number of no par value Class A common shares, and an unlimited number of no par value Class B redeemable preferred shares, issuable in series.

b) Issued Class A common shares, including convertible special warrants:

(Expressed in United States dollars)

	December 31, 1997		June 30, 1997		June 30, 1996	
	Number	**Amount**	Number	Amount	Number	Amount
Balance, beginning of period	**42,732,259**	**$102,439,703**	13,221,973	$ 10,074,970	10,186,307	$ 5,686,718
Convertible special warrants issued for service provided (note (e))	—	—	150,000	252,581	—	—
Convertible special warrants issued for cash (note (e))	—	—	—	—	2,550,000	4,113,808
Stock options exercised for cash	**60,000**	**113,112**	275,500	389,761	87,000	122,828
Purchase warrants exercised for cash	**108,000**	**173,963**	5,631,514	13,894,958	398,666	511,756
Class A special warrants issued for cash (note (f))	—	—	12,223,000	40,148,540	—	—
Class B special warrants issued for cash (note(g))	—	—	11,230,272	40,979,808	—	—
Special Warrants issued for cash (note (h))	—	—	—	1,801,048	—	—
Issuance costs		**(19,368)**	—	(5,101,963)	—	(360,140)
Total issued during the period	**168,000**	**267,707**	29,510,286	92,364,733	3,035,666	4,388,252
Balance, end of period	**42,900,259**	**$102,707,410**	42,732,259	$102,439,703	13,221,973	$ 10,074,970

c) During October 1994, the Corporation completed a private placement of 618,400 Class A common shares at Cdn $1.50 per share, realizing proceeds before expenses of Cdn $927,600. The purchasers received an equal number of warrants permitting them to acquire an additional Class A common share at a price of Cdn $1.65 per share until October 19, 1996 for each warrant exercised. All warrants were exercised before the expiry date.

d) During February 1995, the Corporation completed a Cdn $4 million private placement of 2,666,666 special warrants at Cdn $1.50 each, realizing approximately Cdn $3.5 million after Underwriter's commissions and other expenses related to the issue. The Corporation also issued 120,000 special warrants to three officers of the Corporation for services rendered during the preceding fiscal year. Each special warrant entitled the holder to receive upon exercise, which occurred during August 1995, one Class A common share, 0.5 of a Series 1 share purchase warrant, and 0.5 of a Series 2 share purchase warrant. Each full Series 1 warrant entitled the holder to acquire, subject to adjustments, one Class A common share at a price of Cdn $1.90 until February 21, 1997, while each full Series 2 warrant entitles the holder to acquire, subject to adjustments, one Class A common share at a price of Cdn $2.25 until February 23, 1998. In connection with the private placement, the Corporation granted to its Underwriter compensation warrants entitling it to acquire until February 21, 1997, up to 133,333 Class A common shares at a price of Cdn $1.50 per share and up to 133,333 Class A common shares at a price of Cdn $1.90 per share. All of the Series 1 warrants and compensation warrants were exercised before the expiry date. As at December 31, 1997, 200,333 Series 2 warrants had been exercised.

e) During March 1996, the Corporation completed a Cdn $5.6 million (US $4.1 million) private placement of 2,550,000 special warrants at Cdn $2.20 each, realizing approximately Cdn $5.1 million (US $3.8 million), after the Underwriter's commissions and other expenses related to the issue. Each special warrant entitled the holder to receive upon exercise, which occurred during May, 1996, one Class A common share and 0.5 of a Series 3 share purchase warrant. Each full series 3 warrant entitled the holder to acquire, subject to adjustments, one Class A common share at a price of Cdn $2.50 until February 21, 1997. In connection with the private placement, the Corporation granted to its Underwriter compensation warrants entitling it to acquire until March 21, 1997, up to 150,000 Class A common shares at a price of Cdn $2.30 per share. All 1,275,000 Series 3 warrants and all 150,000 compensation warrants were exercised prior to the expiry date.

f) On September 5, 1996, the Corporation completed a Cdn $55 million (US $40.1 million) private placement of Class A special warrants. A total of 12,223,000 Class A special warrants, exchangeable into an equal number of Class A common shares of the Corporation, were issued at Cdn $4.50 per Class A special warrant. The Corporation failed to clear a final prospectus within the prescribed time period required by the Class A special warrant indenture, to qualify shares for exchange and as a consequence, each Class A special warrant entitled the holder to receive on exercise of the Class A special warrant an additional warrant (a "Series 4 warrant"). In accordance with the terms of the special warrant indenture governing the Class A special warrants, the Class A special warrants were deemed to have converted into 12,223,000 common shares and 12,223,000 Series 4 warrants. Five Series 4 warrants, plus Cdn $5.10 entitled the holder to purchase one additional Class A common share of Hurricane. During the year ended June 30, 1997, 2,384,457 Class A common shares were issued on exercise of 11,922,285 Series 4 warrants for gross proceeds of $8,798,646. The remaining 300,715 Series 4 warrants expired.

g) On November 26, 1996, the Corporation issued by private placement a total of 10,476,000 Class B special warrants, exchangeable into an equal number of Class A common shares, for Cdn $55 million (US $41.0 million). Under the terms of the issue, the Corporation did not qualify shares to be exchanged for the Class B special warrants within the prescribed time frame and as a consequence each Class B special warrant entitled the holder to receive an additional 0.072 Class A common shares. In accordance with the terms of the special warrant indenture governing the Class B special warrants, the Class B special warrants were deemed to have converted into 11,230,272 Class A common shares.

h) On March 26, 1997, the Corporation issued 110,000 special warrants (see note 5). Each special warrant was exercisable, partially into 45 Series 5 warrants. As described in Note 5, Cdn $2,475,000 (US $1.8 million) of the proceeds were allocated to the Series 5 warrants. Each Series 5 warrant entitles the holder to purchase one common share of the Corporation at a price of Cdn $6.25 until March 26, 2002. If after March 26, 2000, the current market price of the common shares of the Corporation is greater than Cdn $12.50, the Corporation has the right to accelerate the expiry date to 20 days after the date the Corporation gives the required notice to the holders of Series 5 warrants. The special warrants were deemed to be exercised 5 days after a receipt was issued for the prospectus which was dated July 21, 1997; accordingly 4,950,000 Series 5 warrants were issued and are currently outstanding as at December 31, 1997.

i) The following stock options were outstanding at December 31, 1997:

Date of Grant	Number Outstanding	Exercise Price Cdn$	Expiry Date	
September 1, 1994	315,000	1.80	Aug. 31,	1998
May 2, 1995	50,000	2.00	May 1,	1999
July 13, 1995	50,000	2.00	July 12,	1999
December 27, 1995	35,000	1.75	Dec. 26,	1999
February 3, 1996	100,000	1.90	Feb. 2,	2000
March 13, 1996	275,000	2.15	March 12,	2000
August 20, 1996	40,000	4.50	Aug. 19,	2000
September 17, 1996	40,000	5.10	Sept. 17,	2000
November 5, 1996	72,500	5.60	Nov. 2,	2000
November 13, 1996	710,000	5.70	Nov. 12,	2001
December 3, 1996	30,000	6.25	Dec. 2,	2001
January 14, 1997	15,000	6.50	Jan. 13,	2002
March 6, 1997	20,000	5.75	March 5,	2002
March 12, 1997	150,000	6.10	March 11,	2002
June 16, 1997	97,500	5.50	June 15,	2002
July 22, 1997	50,000	6.60	July 21,	2002
August 27, 1997	1,450,000	9.30	Aug. 26,	2002
October 6, 1997	10,000	13.10	Oct. 5,	2002
	3,510,000			

j) Class A common shares were reserved for issuance upon the potential exercise of outstanding purchase warrants at December 31, 1997 as follows:

Number Reserved	Description	Exercise Note Reference	Exercise Price Cdn$	Expiry Date
1,193,000	Warrants (Series 2)	6(d)	$ 2.25	February 23, 1998
4,950,000	Warrants (Series 5)	6(h)	$ 6.25	March 26, 2002
6,143,000				

7. Income Taxes

The Corporation and its subsidiaries are required to file tax returns in each of the jurisdictions in which they operate. The prime operating jurisdictions are Canada and Kazakhstan.

The provision for income taxes differs from the results which would have been obtained by applying the combined Canadian Federal and Provincial income tax rate to Hurricane's income before income taxes. This difference results from the following items:

(Expressed in United States dollars)

	Six Months Ended December 31 1997	Years Ended June 30 1997	1996
Effective combined Canadian federal and provincial income tax rate	**44.6 per cent**	44.6 per cent	44.6 per cent
Expected tax expense	**$ 10,219,312**	$ 10,025,097	$ 24,153
Non-deductible payments	**2,165,800**	1,746,589	488
Lower foreign tax rates	**(4,335,227)**	(3,785,178)	—
Deferred income tax benefit not recognized	**3,152,082**	1,945,276	(24,641)
Deferred income tax benefit recognized	**(4,132,500)**	—	—
Other	—	37,941	(7,587)
Income tax expense (recovery)	**$ 7,069,467**	$ 9,969,725	$ (7,587)

The Corporation's principal subsidiary, HKM, and the Corporation's other subsidiaries and joint ventures operating in Kazakhstan, are separate taxpayers under Kazakhstani tax legislation.

Taxes are payable in Kazakhstan based on financial statements prepared in accordance with the laws of Kazakhstan rather than financial statements prepared in accordance with generally accepted accounting principles ("GAAP") in Canada. The majority of the differences between the two sets of financial statements are timing differences where an expense or revenue item is recorded for Canadian GAAP purposes sooner than allowed under Kazakhstani law. The provision for Kazakhstani income taxes of $7,069,467 for the period ended December 31, 1997 (year ended June 30, 1997 – $9,969,725) has been calculated by applying the Kazakhstani statutory tax rate of 30 per cent to the income of Hurricane's Kazakhstan subsidiaries.

For 1997, the other companies have tax deductions available in excess of accounting deductions, the benefits of which have not been recognized.

8. Segmented Information

The Corporation's oil and natural gas exploration, development and production activities are conducted in both Canada and the Republic of Kazakhstan. The following information relates to the Corporation's operations by country:

(Expressed in United States dollars)

	Six Months Ended December 31 1997	Years Ended June 30 1997	1996
Revenue			
Canada	**$ 156,627**	$ 190,927	$ 145,097
Kazakhstan	**93,771,744**	84,477,595	38,965
Corporate	**875,807**	505,754	63,030
Total	**$ 94,804,178**	$ 85,174,276	$ 247,092
Segment Operating Profit			
Canada	**$ (34,041)**	$ (776,559)	$ 19,951
Kazakhstan	**33,059,313**	27,482,535	38,965
Total	**33,025,272**	26,705,976	58,916
Administration expense	**(4,084,984)**	(2,088,577)	(67,054)
Interest (expense) income	**(6,027,033)**	(2,139,603)	63,030
Income tax (expense) recovery	**(7,069,467)**	(9,969,725)	7,587
Net Income	**$ 15,843,788**	$ 12,508,071	$ 62,479
Total Assets			
Canada	**$ 1,492,280**	$ 1,127,344	$ 950,354
Kazakhstan	**250,916,740**	232,620,368	5,595,063
Corporate	**102,888,881**	21,814,945	3,860,425
Total	**$355,297,901**	$ 255,562,657	$ 10,405,842

9. Commitments and Contingencies

The Corporation has a 50 per cent interest in Kumkol North through a joint venture with OJSC Oil Company LUKoil, a Russian oil company ("LUKoil"). The joint venture, Kumkol-LUKoil CJSC ("Kumkol-LUKoil") is the operator of the field. Kumkol-LUKoil, under the exploration and production license, dated December 20, 1995 (the "Kumkol North License") for the Kumkol North producing oil field, has committed to invest 5.3 billion tenge, 5.4 billion tenge, 2.6 billion tenge and 2.5 billion tenge in 1996, 1997, 1998 and 1999, respectively, which, at the exchange rate in effect at December 31, 1995, would be approximately $82.0 million, $84.8 million, $41.1 million and $38.8 million, respectively, and at the exchange rate in effect at December 31, 1997 would be approximately $70.2 million, $71.5 million, $34.4 million and $33.1 million, respectively. Kumkol-LUKoil did not satisfy this commitment in 1996 or 1997. The Corporation intends to seek to renegotiate the terms of the Kumkol North License, including obtaining a waiver of any breaches of its capital investment commitments under such license. Any such renegotiation would require the approval of LUKoil. There can be no assurance that either LUKoil or the Government of Kazakhstan will agree to renegotiate the Kumkol North License or that the Government of Kazakhstan will waive the breach of the Company's capital investment commitments under such license. The failure to satisfy the capital investment commitments with respect to the Kumkol North producing oil field may result in the cancellation of the Kumkol North License. To date, the Corporation has received no notice from the Government of Kazakhstan of its intent to terminate the Kumkol North License. The Kumkol North producing oil field represents approximately 29 per cent of the Corporation's net proved reserves. Under the Share Sale-Purchase Agreement, HKM has the right to have the license for the Kumkol North producing oil field reissued to HKM in the event of the cancellation of the existing Kumkol North License.

Pursuant to the Share Sale-Purchase Agreement with the Republic of Kazakhstan (see note 2), a commitment was made to invest, in Kazakhstan, an aggregate of $280 million in capital expenditures, investments or other items which may be treated as capital assets of HKM on or before December 31, 2002. These expenditures will be used to further exploit and develop existing fields and to explore for new additional reserves to enhance future production and revenues. If the required investment is not made within the agreed time period, Hurricane will be required to pay a penalty of 15 per cent of the amount not invested. Expenditures relating to the construction of the road to Kyzylorda and the gas processing plant, as described below, may be applied against the commitment. As at December 31, 1997, approximately $59.9 million (June 30, 1997 - $27.8 million) of expenditures have been made towards satisfying this commitment.

HKM is constructing a road from Kyzylorda to the Kumkol Field for the purpose of accelerating development of the Kumkol Field. To December 31, 1997, $20.6 million (June 30, 1997 – $18.2 million) has been expended. Further expenditures to complete the road are estimated by HKM management to be approximately $32.1 million. The Agreement obligates the Ministry of Oil and Gas Industry of Kazakhstan to ensure that all entities participating in the development of the South Turgai fields (fields adjacent to the Kumkol Field), bear their proportionate share in the construction costs. The amount to be recovered through their participation is presently not determinable and no amount has been recorded for this recovery.

Gas and gas liquids produced in the Kumkol Field are currently being flared. HKM has undertaken to conduct a feasibility study regarding the extraction of the gas and gas liquids and the construction of a facility which would use the gas to produce electricity.

10. Income Per Share

The income per share calculations are based on the weighted average number of Class A common shares outstanding during the period. Exercise of outstanding purchase warrants and stock options would result in a fully diluted income per share for the six months ended December 31, 1997 of $0.33 (year ended June 30, 1997 – $0.37). Fully diluted income per share for all other periods presented is equal to basic income per share.

11. Comparative Figures

The presentation of certain accounts for previous periods has been changed to conform with the presentation adopted for the current period.

12. Generally Accepted Accounting Principles (GAAP) in the United States

The Corporation's consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada which, in the case of the Corporation, conforms in all material respects with United States GAAP, except that under United States GAAP, deferred income taxes are reported using the liability method instead of the deferral method. Under the liability method, current and deferred income taxes are recognized, at the currently enacted rates, to reflect the expected future tax consequences arising from the difference between transactions recorded in the financial statements and those in income tax returns. In addition, the full amount of the foreign exchange gain on the long-term debt is recognized in the statement of income under United States GAAP. In Canada, the gain or loss due to the translation of a long-term monetary item is deferred and amortized over the life of the related asset or liability.

Consolidated Statements of Income

The application of United States GAAP would have the following effects on net income as reported:

(Expressed in United States dollars)	Six Months Ended December 31 1997	Years Ended June 30 1997	1996
Net income as reported in accordance with Canadian GAAP	**$ 15,843,788**	$ 12,508,071	$ 62,479
Adjustment:			
Deferred income tax adjustment	**—**	360,000	7,251
Deferred foreign exchange gain	**2,424,143**	338,873	—
Net income under United States GAAP	**$ 18,267,931**	$ 13,206,944	$ 69,730
Basic income per share under United States GAAP	**$ 0.43**	$ 0.42	$ 0.01
Diluted income per share under United States GAAP	**$ 0.43**	$ 0.35	$ 0.01

Stock based compensation

Stock based compensation consists of stock options issued by the Corporation to its employees, officers and directors. The option price at the date of grant is equal to or greater than the market price at that date. The fair value of the 3,510,000 options outstanding at December 31, 1997 is approximately $16.2 million.

Consolidated Balance Sheets

The application of United States GAAP would have the following effects on balance sheet items as reported:

Shareholders' Equity

(Expressed in United States dollars)	As at December 31 1997	As at June 30 1997
Shareholders' equity as reported	**$ 130,937,851**	$ 114,858,106
Increase	**3,123,016**	698,873
Shareholders' equity as adjusted to United States GAAP	**$ 134,060,867**	$ 115,556,979

Accounts payable and accrued liabilities

The following is the breakdown of accounts payable and accrued liabilities:

(Expressed in United States dollars)	As at December 31 1997	As at June 30 1997
Accounts payable	**$ 18,372,512**	$ 32,102,908
Accrued liabilities	**10,180,771**	29,532,545
Total	**$ 28,553,283**	$ 61,635,453

Significant accrual balances include:

(Expressed in United States dollars)	As at December 31 1997	As at June 30 1997
Salaries and related expenses	**$ 5,241,020**	$ 10,690,139
Income and other taxes	**$ 2,248,492**	$ 18,122,000
Interest	**$ 2,691,259**	$ 720,406

Income taxes

The components of the net deferred tax liability are as follows:

(Expressed in United States dollars)	As at December 31 1997	As at June 30 1997
Deferred tax liabilities	$ —	$ —
Deferred tax assets	$ 38,190,000	$ 54,646,474
Valuation allowance	(38,190,000)	(54,646,474)
Net deferred tax liability	$ —	$ —

The major component of the deferred tax asset relates to the Acquisition of HKM. An asset results as the accounting book value was less than the tax values of HKM.

Site Restoration

Total anticipated costs for site restoration and abandonment for the Kazakhstan properties as at December 31, 1997 are $ 4.7 million. The anticipated cost for the Canadian properties is insignificant.

Consolidated Statements of Cash Flow

The application of United States GAAP would have no effect on the statements of changes in financial position as reported.

Interest paid

Interest paid each year is as follows:

(Expressed in United States dollars)	Six Months Ended December 31 1997	Years Ended June 30 1997	1996
Interest paid	$ 4,246,806	$ 1,626,104	$ —

Income taxes paid

Income taxes paid each year are as follows:

	Six Months Ended December 31 1997	Years Ended June 30 1997	1996
Income taxes paid (recovery)	$ 3,969,874	7,091,449	$ (7,587)

Impact of New and Impending US GAAP Accounting Standards

a) The Accounting Standards Executive Commitee of the American Institute of Certified Public Accountants has adopted statement of position 96-1, "Environmental Remediation Liabilities", which provides guidance on the recognition, measurement, display and disclosure of environmental remediation liabilities. The statement is effective for the Corporation's 1997 fiscal year, but did not have any material effect on the financial position or results of operations of the Corporation.

b) In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"), and SFAS No. 131 ("SFAS No. 131"). SFAS No. 130 establishes standards for reporting and display of comprehensive income in the financial statements. Comprehensive income is the total of net income and all other non-owner changes in equity. SFAS No. 131 requires that companies disclose segment data based on how management makes decisions about allocating resources to segments and measuring their performance. SFAS No.s 130 and 131 are effective for 1998. Adoption of these standards is not expected to have an effect on the Corporation's consolidated financial statements, financial position or results of operations.

The following information about the Corporation's oil and gas producing activities is presented in accordance with United States Statement of Financial Accounting Standards No. 69: Disclosures About Oil and Gas Producing Activities.

Oil and Gas Reserves

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions.

Proved developed oil and gas reserves are reserves that can be expected to be recovered from existing wells with existing equipment and operating methods.

Estimates of oil and gas reserves are subject to uncertainty and will change as additional information regarding the producing fields and technology becomes available and as future economic conditions change.

Reserves presented in this section represent the Corporation's working interest share of reserves net of royalties. The Canadian reserves at June 30, 1995, 1996 and 1997 are based on estimates by the independent petroleum engineering firm, Citadel Engineering Ltd. The Kazakhstani reserves at June 30, 1995 and 1996 are based on estimates by the independent petroleum engineering firm, Citadel Engineering Ltd. The Kazakhstan reserves at June 30, 1997 and December 31, 1997 are based on estimates by the independent petroleum engineering firm, McDaniel & Associates Consultants Ltd. ("McDaniel"). Estimates of the Corporation's oil reserves in the Kumkol and South Kumkol producing oil fields were prepared by McDaniel. In addition, McDaniel consolidated data relating to estimates of reserves in the Corporation's other fields prepared by others in order to produce estimates of the Corporation's reserves.

The Corporation's net proved and net proved developed oil and gas reserves were as follows:

Net Proved Reserves

	Canada	Crude Oil (thousands of barrels) Kazakhstan	**Total**
Net proved reserves, June 30, 1995	301	15,380	**15,681**
Dispositions	(11)	—	**(11)**
Production	(7)	—	**(7)**
Revisions of previous estimates	—	(1,240)	**(1,240)**
Net proved reserves, June 30, 1996	283	14,140	**14,423**
Acquisitions	—	139,750	**139,750**
Production	(6)	(9,314)	**(9,320)**
Revisions of previous estimates	—	(2,374)	**(2,374)**
Net proved reserves, June 30, 1997	277	142,202	**142,479**
Acquisitions	—	8,724	**8,724**
Production	(6)	(8,589)	**(8,595)**
Revisions of previous estimates	—	76,088	**76,088**
Net proved reserves, December 31, 1997	271	218,425	**218,696**

Net Proved Developed Reserves:	
June 30, 1995	**301**
June 30, 1996	**283**
June 30, 1997	**91,979**
December 31, 1997	**129,742**

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves

The following standardized measure of discounted future net cash flows from proved oil and gas reserves has been computed using period end prices and costs and period end statutory tax rates. A discount rate of 10 per cent has been applied in determining the standardized measure of discounted future net cash flows.

The Corporation does not believe that this information reflects the fair market value of its oil and gas properties. Actual future net cash flows will differ from the presented estimated future net cash flows in that:

- future production from proved reserves will differ from estimated production;
- future production will also include production from probable and potential reserves;
- future rather than year end prices and costs will apply; and
- existing economic, operating and regulatory conditions are subject to change.

The standardized measure of discounted future net cash flows is as follows:

(Expressed in United States dollars in thousands)

	Canada	Kazakhstan	**Total**
December 31, 1997			
Future cash inflows	$ 6,860	$ 2,075,038	**$ 2,081,898**
Future production, development and restoration costs	2,914	1,259,225	**1,262,139**
Future income taxes	986	204,374	**205,360**
Future net cash flows	2,960	611,439	**614,399**
10 per cent annual discount	1,141	248,146	**249,287**
Standardized measure	$ 1,819	$ 363,293	**$ 365,112**
June 30, 1997			
Future cash inflows	$ 7,053	$ 1,302,304	**$ 1,309,357**
Future production, development and restoration costs	3,142	677,008	**680,150**
Future income taxes	977	138,089	**139,066**
Future net cash flows	2,934	487,207	**490,141**
10 per cent annual discount	1,139	173,975	**175,114**
Standardized measure	$ 1,795	$ 313,232	**$ 315,027**
June 30, 1996			
Future cash inflows	$ 7,439	$ 277,523	**$ 284,962**
Future production, development and restoration costs	3,599	142,087	**145,686**
Future income taxes	935	44,002	**44,937**
Future net cash flows	2,905	91,434	**94,339**
10 per cent annual discount	1,312	38,494	**39,806**
Standardized measure	$ 1,593	$ 52,940	**$ 54,533**

Changes in standardized measure of discounted future net cash flows for the following periods ended:

(Expressed in United States dollars in thousands)

	Six Months Ended December 31 1997		Years Ended June 30 1997		1996	
Sales of oil and gas net of production costs	$	**(12,524)**	$	(34,609)	$	(36)
Net changes in prices and production costs		**(10,111)**		(12,177)		—
Extensions, discoveries and improved recovery		—		—		—
Purchase of reserves		**12,721**		278,680		—
Sales of reserves		—		—		(14)
Revisions of previous estimates		**115,416**		(4,789)		460
Net change in future development costs		**(57,360)**		31,551		—
Accretion of discount		**1,943**		1,838		1,670
Increase		**50,085**		260,494		2,080
Standardized measure, beginning of period		**315,027**		54,533		52,453
Standardized measure, end of period	**$**	**365,112**	$	315,027	$	54,533

Costs Incurred in Oil and Gas Property Acquisition, Exploration and Development Activities for the following periods ended:

(Expressed in United States dollars in thousands)

		Canada		Kazakhstan		**Total**
Six months ended December 31, 1997						
Property Acquisition						
Proved	$	—	$	1,596	**$**	**1,596**
Unproved		—		2,417		**2,417**
Development		68		43,182		**43,250**
Exploration		—		—		—
	$	68	$	47,195	**$**	**47,263**
Year ended June 30, 1997						
Property Acquisition						
Proved	$	—	$	75,007	**$**	**75,007**
Unproved		—		55,171		**55,171**
Development		11		23,659		**23,670**
Exploration		—		—		—
	$	11	$	153,837	**$**	**153,848**
Year ended June 30, 1996						
Property Acquisition						
Proved	$	—	$	—	**$**	—
Unproved		—		—		—
Development		40		2,182		**2,222**
Exploration		—		—		—
	$	40	$	2,182	**$**	**2,222**

Depletion per unit of net production:

		Canada		Kazakhstan
	($/barrel of oil equivalent)			
Six months ended December 31, 1997	$	3.19	$	1.88
Year ended June 30, 1997	$	9.96	$	1.12
Year ended June 30, 1996	$	5.32		—

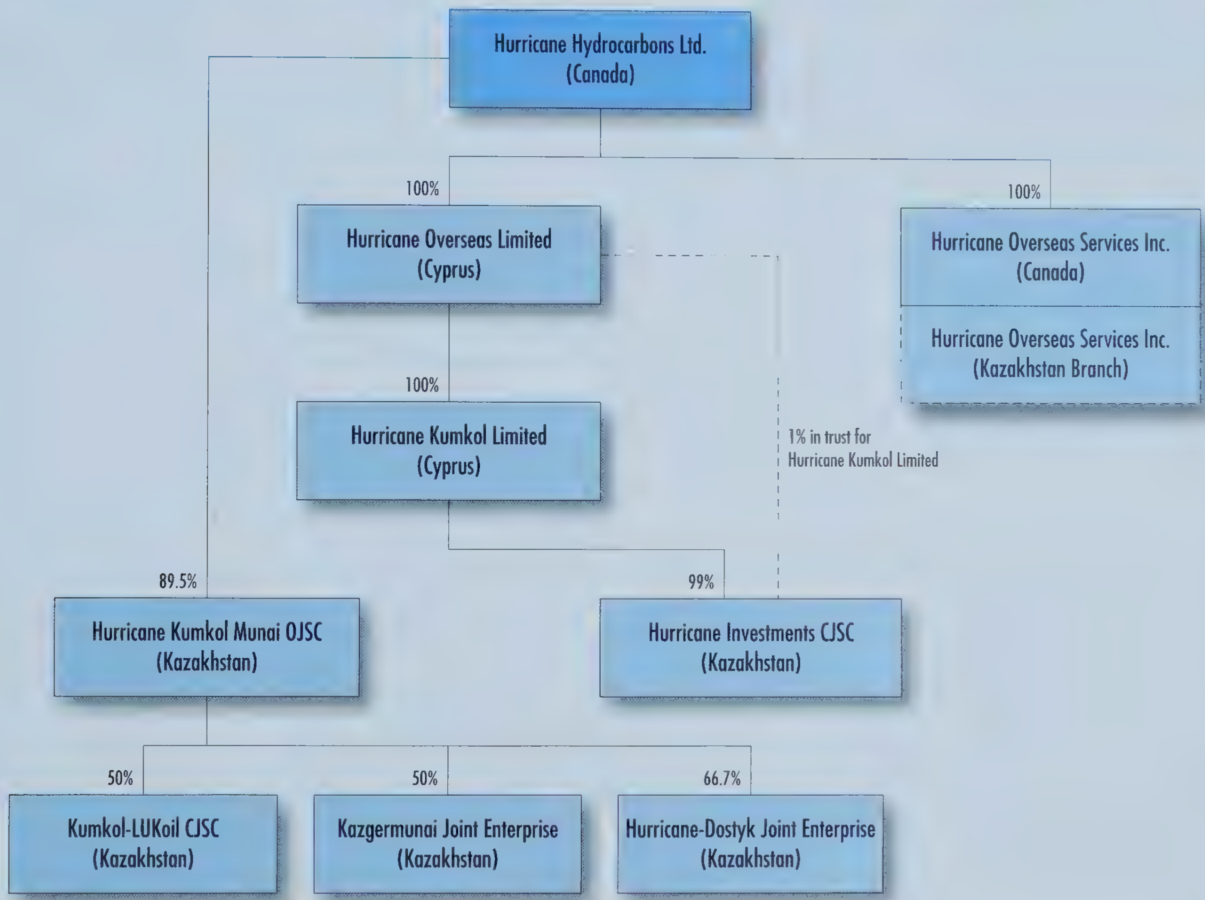
Results of Operations for Oil and Gas Producing Activities:

(Expressed in United States dollars in thousands)

		Canada		Kazakhstan		**Total**
Six months ended December 31, 1997						
Sales	$	157	$	93,772	**$**	**93,929**
Royalty and production expense		140		35,154		**35,294**
Depletion		51		15,632		**15,683**
Income before tax		(34)		42,986		**42,952**
Income tax		—		(7,069)		**(7,069)**
Results of operations from producing activities	$	(34)	$	35,917	**$**	**35,883**
Year ended June 30, 1997						
Sales	$	191	$	84,283	**$**	**84,474**
Royalty and production expense		56		27,020		**27,076**
Depletion		46		16,753		**16,799**
Income before tax		89		40,510		**40,599**
Income tax		—		(9,610)		**(9,610)**
Results of operations from producing activities	$	89	$	30,900	**$**	**30,989**
Year ended June 30, 1996						
Sales	$	120	$	—	**$**	**120**
Royalty and production expense		62		—		**62**
Depletion		63		—		**63**
Income (loss) before tax		(5)		—		**(5)**
Income tax recovery		8		—		**8**
Results of operations from producing activities	$	3	$	—	**$**	**3**

CORPORATE STRUCTURE

The following chart shows the principal subsidiaries of Hurricane Hydrocarbons Ltd., their respective jurisdictions of incorporation and the percentage ownership Hurricane Hydrocarbons Ltd., has, directly or indirectly, in each. The Company conducts virtually all its operations through, and virtually all its assets are held, directly or indirectly, by Hurricane Kumkol Munai (HKM).



Hurricane Hydrocarbons Ltd. (Canada) – corporate head office, owns the other companies within the Hurricane family, raises funds for acquisitions and operations.

Hurricane Overseas Limited (Cyprus) and Hurricane Kumkol Limited (Cyprus) – intermediate holding companies.

Hurricane Overseas Services Inc. (Canada and Kazakhstan) – supplier of international goods and services for Hurricane's Kazakhstani operations, hires and compensates expatriate employees.

Hurricane Kumkol Munai OJSC (Kazakhstan) – responsible for Hurricane's Kazakhstani operations; including the development and production of crude oil reserves, financial planning and accounting, and the training of Kazakhstani employees.The Company owns 100 per cent of the common voting shares of HKM which represent 89.5 per cent of the equity of the HKM. The balance of the voting shares of HKM consist of a single class of preferred stock owned by current and former employees of HKM.

Hurricane Investments CJSC (Kazakhstan) – recruits and compensates Kazakhstani employees, owns Hurricane's office building in Almaty.

Kumkol-LUKoil CJSC (Kazakhstan) – joint enterprise with LUKoil of Russia to develop the north half of the Kumkol field.

Kazgermunai Joint Enterprise (Kazakhstan) – joint enterprise with RWE-DEA AG, EEG, and IFC to develop the Akshabulak, Nurali and Aksai fields.

Hurricane-Dostyk Joint Enterprise (Kazakhstan) – joint enterprise to complete the rail transshipment terminal at Druzhba on the Kazakhstan-China border.

THE OFFICERS AND DIRECTORS OF HURRICANE HYDROCARBONS LTD.

JOHN J. KOMARNICKI
Director, President and Chief Executive Officer

We realize the immense potential of Kazakhstan's abundant resource base and human expertise, and through investment and positive relationship building, we are committed to the development of both. We are successful because we investigate thoroughly, plan carefully, work hard and maintain a keen awareness of the cultural and social sensitivities of our employees and the people who live and work in the Kyzylorda region of Kazakhstan.

John Komarnicki was appointed to the Board of Hurricane Hydrocarbons Ltd. as a director and Corporate Secretary in 1988, and became Hurricane's President and Chief Executive Officer on July 1, 1989. He brings over 20 years of solid industry experience to the helm of Hurricane.

Mr. Komarnicki graduated from the University of Toronto in 1973 with a Bachelor of Applied Science degree in Chemical Engineering. During his career, he held technical and managerial positions with Gulf Canada Ltd. and Gulf Canada Resources in Calgary. In 1980, he joined Aquitaine Company of Canada Ltd. (later Canterra Energy Ltd.) where he held various senior positions responsible for production engineering, joint interest operations, resource management and business development.

Mr. Komarnicki is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta, and a past president of the Canadian Gas Processors' Association.

BERNARD F. ISAUTIER
Director

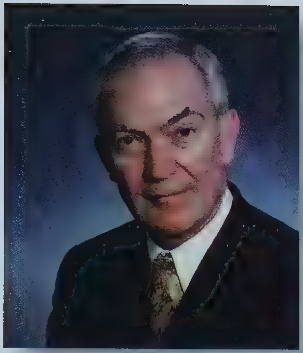
Hurricane's success is the product of vision, leadership and commitment. Its business philosophy and the dedication of its team ideally position Hurricane for spectacular growth well into the future.

Bernard Isautier was appointed as a director of Hurricane on March 19, 1996. He has degrees in Mathematics and Physics from the Polytechnique School of Paris, an Engineering degree from the Mining School of Paris and a Masters in Business Administration from the Institute of Political Sciences in Paris.

Mr. Isautier is currently the President and Chief Executive Officer of Chauvco Resources International Ltd. and a director of a number of companies including Lafarge SA, Archer Resources, Firan Corporation and Wilan Inc. He is also a director of, and in October 1997 was appointed Chairman of the Board of, Canadian Fracmaster Ltd., an oil field services company. From 1993 to 1995, he was President and Chief Executive Officer of Canadian Occidental Petroleum Ltd., and from 1990 to 1992, he was Chairman and Chief Executive Officer of Thomson Consumer Electronics Company, a French electronics company.

Prior to 1990, Mr. Isautier served as President and Chief Executive Officer of Polysar Energy and Chemicals Corp. in Toronto, Canterra Energy Ltd. and Aquitaine of Canada in Calgary. Early in his career, Mr. Isautier served as an advisor to the French Minister of Energy and Industry and as an advisor on uranium development to the President of the Republic of Niger.

Mr. Isautier is a citizen of Canada and France.



THE HONOURABLE ROBERT P. KAPLAN, P.C., Q.C., LL.B.
Director

Kazakhstan is a frontier country. Its new openness to the market economy and to foreign investment make it a land of opportunity, where, for players who respect the nation and acknowledge its interests and capabilities, the sky is the limit. Hurricane is at the forefront because it understands and because its technology, know-how and entrepreneurship are a perfect fit.

The Honourable Robert Kaplan was appointed as a director of Hurricane on April 3, 1995.

Mr. Kaplan holds a Bachelor of Arts with Honours degree in Sociology (Criminology) and a Bachelor of Laws degree from the University of Toronto, Ontario. After practicing law in Toronto, he served as a Federal Member of Parliament from 1968 until 1993 when he retired as one of the senior members of the House of Commons. During his term, he served in two Liberal Cabinets as the Solicitor General of Canada responsible for law enforcement and national security. He has chaired both the Commons Finance Committee and Justice Committee, and served as Energy Critic for the Official Opposition. He has represented Canada at the Law of the Seas Conference and at the United Nations General Assembly.

Since retirement from political life, Mr. Kaplan has been active in the area of trade and project management between Canada and a number of countries in the former Soviet Union. In recognition for his work in Kazakhstan, he was appointed as the Honorary Consul General for Canada for the Republic of Kazakhstan.

KEITH L. McCRAE
Vice President Engineering and Facilities,
President and Chief Executive Officer, Hurricane Kumkol Munai

Hurricane Kumkol Munai is successful because we conduct our business within a bicultural framework aimed at developing win-win situations. We have not made the mistake of analyzing the apparent landscape through western eyes and processing the data using only western logic. We emphasize a partnering between Kazakhstani specialists and expatriate professionals, and the process works.

Keith McCrae joined Hurricane in October 1996 as Vice President Engineering and Facilities, and was appointed President and Chief Executive Officer of Hurricane Kumkol Munai in March 1997. He lives in Kyzylorda, Kazakhstan.

Mr. McCrae graduated from the University of Alberta in 1967 with a Bachelor of Science degree in Mechanical Engineering. After working briefly as a geophysical engineer, he focused on engineering and construction with a number of engineering and resource companies. In 1972, he joined Delta Projects, a company that designs and constructs oil and gas processing plants, as a project engineer and project manager on a several oil production and sour gas plant projects in Alberta. Mr. McCrae was stationed in London, England from 1978 to 1980 as the Managing Director of Delta International Inc.

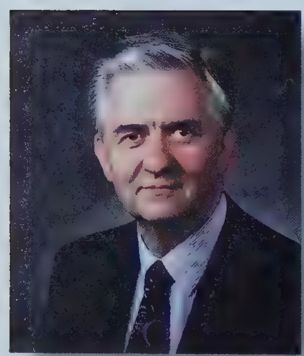
In 1980, he was involved with the Esso Cold Lake Project Team in Alberta until its cancellation in 1981 at which time he was appointed Vice President, Business Development for Delta Projects Inc. He became Vice President Marketing and Regional Development at Fluor Daniel Canada Inc. in 1990, and from 1993 until the time he joined Hurricane, Mr. McCrae served as the Executive Director of Sales for Fluor Daniel.

LOUIS W. MacEACHERN
Director

Hurricane's management team is uniquely positioned to foster continued growth by virtue of its performance, and well-established business and political relationships in this part of the world. Kazakhstan and other central Asian countries, including western China, offer rewarding investment opportunities of which Hurricane is definitely a part.

Louis MacEachern has been a director of Hurricane since 1989. He is the sole owner of Fortune Industries Ltd., which holds the majority shares in the Servpro/Dalco Group of companies specializing in construction, salvage and cleaning.

Mr. MacEachern is a director of Resolution Energy Ltd., and active in a number of community and charitable associations. He is a director of the Canadian Cancer Society, Alberta and Northwest Territories division; the Duke of Edinburgh Awards which helps youths 16 to 24 years of age create positive futures; the Salvation Army, Alberta and Northwest Territories division; the Calgary Chamber of Commerce; and The Calgary Foundation.



RICHARD P. NORRIS, CA
Vice President Finance and Chief Financial Officer

The unique opportunity we enjoy at Hurricane is to be able to generate superior returns for our shareholders and at the same time improve the quality of life for the people in the area where we operate.

Richard Norris became Vice President Finance and Chief Executive Officer on October 1, 1996. He brings extensive knowledge of corporate finance, accounting, risk management and international tax regulations to the company.

Prior to his current position, Mr. Norris was a financial consultant to Hurricane from January 1993 to April 1994, when he was appointed Treasurer of Cameco Corporation, the world's largest publicly traded uranium mining and refining company. While with Cameco, he was heavily involved in the financing and political risk insurance program for the Kumtor Gold Project in the central Asian Republic of Kyrgyzstan.

Mr. Norris obtained his Chartered Accountant's designation in the United Kingdom in 1970, and in 1979, joined Aquitaine Company of Canada Ltd. in Calgary. In 1985, he was appointed Treasurer of Canterra Energy Ltd., a company with assets in excess of Cdn $2 billion at the time, and in 1988, he became Treasurer of Husky Oil Ltd. of Calgary.

GLENN G.H. VAN DOORNE

Vice President Exploration and Development

We have initiated an aggressive development plan which includes drilling at the South Kumkol field, and upon finalizing a new agreement with LUKoil, will see 50 wells drilled in Kumkol North during 1998. Such measures will ensure we meet our production goals for 1998.

Glenn Van Doorne joined Hurricane as a consultant in 1991 and became involved in the Kazakhstani projects in 1992. He was appointed Vice President Exploration and Development on April 3, 1995. He is fluent in English, French, German and Dutch, and brings over 20 years of international industry experience to the company.

Mr. Van Doorne graduated from the University of Brussels in 1972 with a Bachelor of Science degree in Geology and Mineralogy, followed by a Masters of Science from the University of Ghent, Belgium in 1975. Past positions include four years at the International Energy Agency in London, England, four years as an exploration geologist at Husky Oil Operations Ltd. in Calgary, and five years in development geology and reservoir engineering at Canterra Energy Ltd. in Calgary. He also spent three years as a consulting geologist with Intergraph Middle East Ltd. working on projects in Pakistan, Turkey, North Africa and the Middle East.

WERNER J.M. WENZEL

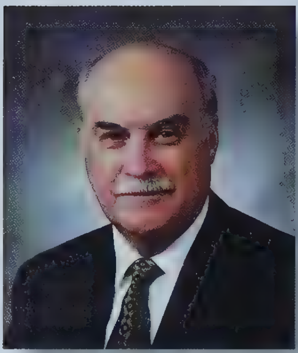
Director

Hurricane was one of the first western energy companies to analyze Kazakhstan and to recognize a unique window of opportunity at the right time. Opportunities, which today, mirror the early pioneering days in Alberta, Oklahoma or Texas.

Werner Wenzel has been a director of Hurricane since 1989 and was instrumental in establishing the contacts for Hurricane in Kazakhstan which led to the acquisition of Yuzhneftegaz, now renamed Hurricane Kumkol Munai.

Mr. Wenzel is the President and Chief Executive Officer of Intcan Economic Development and Finance Associates Ltd., a technology development company established by him in 1975, and of Industrial Research & Management Ltd., a personal holding company established in 1960. He also serves as Senior Executive Advisor to Technoex Limited, a Bermuda company that has been providing services to Hurricane in Kazakhstan since 1996.

In 1991, he established the Turan Petroleum Joint Enterprise in Kazakhstan and acted as its President and Chief Executive Officer until 1994, and then again from June 1995 to May 1996. Mr. Wenzel was also the President and Chief Executive Officer of Chancellor Energy Ltd., a publicly traded oil and gas company, and Wega-D Geophysical Ltd. From 1972 to 1975, he served as the Assistant Deputy Minister Economic Development and International Trade for the Government of Alberta.

	FREDERICK A. YOUCK *Director, Vice President Administration and Corporate Secretary*

Hurricane is a company with the ability to make a difference in the quality of life for its employees in Kazakhstan and a solid contribution to that country, while at the same time, creating benefits for its local employees and committed shareholders.

Fred Youck joined Hurricane as a director and Secretary-Treasurer in 1989. He was appointed Vice President Administration and Corporate Secretary on April 3, 1995. He brings to the Company extensive experience in the administration of public and private corporations, having orchestrated financings and consolidated mergers and acquisitions in excess of Cdn $242 million.

He spent 19 years in the trust industry in Canada including 16 years with the Guaranty Trust Company of Canada, where he held the position of Assistant Manager of the Calgary branch, and senior Corporate Trust Officer for western Canada. While with Guaranty Trust, Mr. Youck was responsible for transfer agencies, registarships and trusteeships for a number of companies.

He subsequently spent 12 years with Turbo Resources, a fully integrated oil and gas group, where he was an officer of 29 private and five public companies, many with international operations.

THE REPUBLIC OF KAZAKHSTAN

A resource rich country, Kazakhstan is located in central Asia. Its territory covers over 1.05 million square miles making Kazakhstan the ninth largest country in the world. Kazakhstan is approximately the same size as the four western Canadian provinces or four times the size of the state of Texas.

On December 10, 1997, the Government officially moved the country's capital city to Akmola from Almaty. Akmola, a city of 940,000 people, is located in north central Kazakhstan. Hurricane maintains offices in Akmola, Almaty (pop. 1.6 million) and Kyzylorda (pop. 160,000). The total population of Kazakhstan is approximately 17 million.

The President and Head of State is Nursultan Nazarbayev. Elected in 1991, President Nazarbayev's term has been extended to 2000. Under his leadership, Kazakhstan's progress to a market economy has exceeded that of the other Commonwealth of Independent State countries (CIS). The Head of the Government is Prime Minister Nurlan Balgimbayev, the former president of the state-owned oil company, Kazakhoil.

Kazkahstan is a country with a rich history. Being located in the center of Eurasia, Kazakhstan has long been the site of social, economic, cultural and ideological exchange between East and West. The famed Silk Road, passes through Kazakhstan, which continues to be a centre of economic activity.

During 1997, foreign investment in Kazakhstan increased by 20 per cent. Leading the way was investment in Kazakhstan's oil industry which grew to US $627 million in 1997, up from US $450 million in 1996. The Gross Domestic Product was up 2.5 per cent to US $1500 per capita, the highest per capita rating among the CIS countries according to the World Bank, and inflation dropped to 12 per cent in 1997 from 28 per cent in 1996.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

The Toronto Stock Exchange Committee on Corporate Governance in Canada has issued a series of guidelines for effective corporate governance – the TSE Report. The guidelines address matters such as the constitution and independence of corporate boards, the functions to be performed by boards and their committees, and the effectiveness and education of board members. To implement these guidelines, the TSE Report contains a recommendation to The Toronto Stock Exchange (TSE) that the TSE adopt, as a listing requirement, the disclosure by each of its listed corporations as to their approach to corporate governance with reference to the proposed guidelines. The TSE has adopted this recommendation. The Report's proposed guidelines are not mandatory as it is recognized that the unique characteristics of individual corporations will result in varying degrees of compliance with such guidelines. The TSE Report's requirement of disclosure provides that corporations must indicate where the guidelines have not been adopted with a brief explanation of why.

The TSE Report pays a great deal of attention to the make-up and independence of corporate boards. A related director, according to the TSE Report, is a director who is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the corporation, other than interests arising from shareholding. In defining an unrelated director, the TSE Report places emphasis on the ability of a director to exercise objective judgement, independent of management. The Report also make an informal distinction between inside and outside directors. An inside director is a director who is an officer or employee of the corporation or any of its affiliates.

Hurricane's Board of Directors and senior management consider good corporate governance to be central to the effective and efficient operation of the Company. The Company has a Corporate Governance Committee of its Board of Directors which has the general mandate of analyzing the TSE Report and proposed guidelines in a manner appropriate for the Company, and monitoring all on-going aspects of corporate governance. In some instances, as described below, certain aspects of the TSE Report's guidelines are inappropriate given the current structure of the Company:

a) the Company is completing the absorption of a significant acquisition in Kazakhstan and is focusing on establishing a strong organization to fully develop and enhance its assets;

(b) every effort is made by management and the Board of Directors to operate the Company on an efficient and cost-effective basis for the development of assets; and

(c) the Company, in its present stage of development, relies heavily on the entrepreneurial and strong leadership abilities of its President and Chief Executive Officer.

The following analysis uses definitions contained in the TSE Report and is numbered in response to the specific proposed guidelines.

1. The Board has implicitly and explicitly acknowledged its responsibility for the stewardship of the Company.

   a) The Board participates in the strategic planning process for the Company and will continue to review and advise management in formulating the short and long term objectives of the Company.

b) The Board has considered the principal risks of the Company and will continue to assess and review the on-going management of such risks.

c) The Company is still completing its transition to owner-operator of its acquisition in Kazakhstan and has not developed a formal succession plan. The Board takes ultimate responsibility for the appointment and monitoring of the Company's senior management. It is the Company's policy to seek to attract management personnel whose prior experience has well trained them for their responsibilities within the Company. The Board encourages senior management to participate in appropriate professional and personal development activities, courses and programs, and supports management's commitment to the training and development of all permanent employees. The Compensation Committee assists the Board in monitoring the performance of senior management.

d) The Board, in conjunction with management, continues to review the methods by which the Company communicates with its shareholders, regulatory bodies and the public.

e) The Board, directly through the Audit Committee, and through the external auditors, assesses the integrity of the Company's internal control and management information systems.

2. The Board is comprised of six members of which three are members of management. As members of management, John J. Komarnicki, Werner J. M. Wenzel and Frederick A. Youck are considered as "related" directors. Werner J. M. Wenzel, a director of the Company since 1989, was appointed head of the Yuzhneftegaz Transition Team and is presently working in Kazakhstan. In the opinion of the Board, the remaining three incumbent directors are "unrelated". The Corporate Governance Committee is committed to adding further unrelated and outside directors in the future. The Company does not have a significant shareholder as defined by the TSE Report's guidelines.

3. Currently, three of the six members of the Board are "outside" directors. No directors are related to each other or are subject to special voting arrangements.

4. Currently, the full Board performs the functions of the Nomination Committee of the Company with responsibility for the appointment and assessment of directors. The Board believes that this is a practical approach at this stage in the Company's development. At such time as the Board is further expanded, the Corporate Governance Committee will consider proposing a formal Nomination Committee composed of non-management directors, a majority of whom are unrelated.

5. The Board created a Corporate Governance Committee composed of three members, the President and Chief Executive Officer and two outside directors, being Bernard F. Isautier and Robert P. Kaplan, as chairman of the Committee. The Corporate Governance Committee has the responsibility of assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors. The Corporate Governance Committee reports to the full Board and will consider having more outside and unrelated directors as more directors are added to the Board.

6. The Company currently has an informal process of orientation for new members of the Board. The Corporate Governance Committee is reviewing the process.

7. The Board is currently considering expanding the number of members, but generally adopts the philosophy of governance via a small but effective Board.

8. The Board has a Compensation Committee with a mandate of reviewing the adequacy and form of compensation of directors and officers.

9. The composition of the Corporate Governance Committee is discussed above. The Audit Committee is comprised of two outside and unrelated directors and one management director. This structure is in compliance with applicable corporate and securities laws and guidelines. The Compensation Committee is comprised of all outside and unrelated directors.

10. The Corporate Governance Committee is discussed in item 5 above.

11. The Company has not developed position descriptions for the Board or Chief Executive Officer. The Corporate Governance Committee is planning to develop position descriptions for the Board and the Chief Executive Officer.

12. The Board has functioned, and is of the view that it can continue to function, independently of management as required. The Board has not taken steps to appoint a chair of the Board due to the constitution and make-up of the Board and the size of the Company. The President and Chief Executive Officer functions as unofficial chairman of Board meetings. The Board has not moved to appoint a chair of the Board who is other than the CEO for two main reasons:

    a) the Company's business, the constitution and make-up of the Board, and the personality and background of the incumbent CEO make it appropriate that the CEO chair the Board;

    b) the role of the chair in setting the Board agenda and ensuring that adequate and proper information is made available to the Board, a critical element for effective corporate governance, is best filled by one who has intimate knowledge of the Company and its operations.

13. The Board has an Audit Committee. Composition of the Audit Committee is discussed in item 9 above. The roles and responsibilities of the Audit Committee include responsibility for overseeing management's reporting on internal control. The Audit Committee has direct communication channels with the external auditors. The Company has no formal internal audit process.

14. The Company allows any member of the Board to engage an outside advisor at the expense of the Company in appropriate circumstances.

FUTURE ORIENTED FINANCIAL INFORMATION

Hurricane is reporting its financial results for the six month fiscal period ended December 31, 1997. Previously, Hurricane reported on the basis of a June 30 year end. In order to compare the results for the calendar year with the forecast issued previously, the results for the six months ended June 30, 1997 compiled from the previously issued unaudited quarterly reports, have been added to the results for the six month period ended December 31, 1997.

(Expressed in United States dollars in thousands)

	July 1 to December 31, 1997	January 1 to June 30, 1997 (Unaudited)	Calendar Year Ended December 31, 1997 (Unaudited)	Calendar Year Ended December 31, 1997 Forecast	Forecast Minus Actual Results
Revenue					
Oil sales	$ 93,907	$ 72,983	$ 166,890	$ 172,021	$ 5,131
Interest	897	557	1,454	627	(827)
	94,804	73,540	168,344	172,648	4,304
Expenses					
Production	28,444	17,780	46,224	45,219	(1,005)
Royalties	6,850	3,462	10,312	10,059	(253)
General & administrative	13,729	14,136	27,865	27,355	(510)
Interest	6,903	2,645	9,548	9,643	95
Depreciation & depletion	15,933	14,281	30,214	30,924	710
Foreign exchange (gain) loss	32	(65)	(33)	(97)	(64)
	71,891	52,239	124,130	123,103	(1,027)
Income before tax	22,913	21,301	44,214	49,545	5,331
Income tax	7,069	9,367	16,436	18,877	2,441
Net income	$ 15,844	$ 11,934	$ 27,778	$ 30,668	$ 2,890

The comparison shows that sales for the calendar year 1997 were $5.1 million less than forecasted. This difference results primarily from the fact that production during the last quarter was halted for a period of ten days to allow for modifications to be made to the Company's central oil processing facility. These modifications were necessary to increase the capacity of the facility in anticipation of production increases in the near future. As a result of this shut down, production was approximately 500,000 barrels below forecast. Interest income was higher than forecast by $0.8 million and total expenses were $1.0 million higher than forecast as a result of slightly higher production expenses. The income before tax was lower than forecast by $5.3 million. This was partly offset by a $2.4 million lower charge for income tax resulting in a net income which was lower than forecast by $2.9 million.

CORPORATE INFORMATION

DIRECTORS

Bernard F. Isautier [2][3]
Corporate Director
Papeete, Tahiti

Hon. Robert P. Kaplan [1][2][3]
International Business Consultant
Toronto, Ontario

John J. Komarnicki [3]
President and Chief Executive Officer
Hurricane Hydrocarbons Ltd.
Calgary, Alberta

Louis W. MacEachern [1][2]
President
Servpro / Dalco Group
Calgary, Alberta

Werner J. M. Wenzel
President
Intcan Economic Development &
Finance Associates Ltd.
Calgary, Alberta

Frederick A. Youck [1]
Vice President Administration
and Corporate Secretary
Hurricane Hydrocarbons Ltd.
Calgary, Alberta

(1) *Audit Committee Member*
(2) *Compensation Committee Member*
(3) *Corporate Governance Committee Member*

OFFICERS

John J. Komarnicki
President and Chief Executive Officer

Keith L. McCrae
Vice President Facilities and Engineering

Richard P. Norris
Vice President Finance and
Chief Financial Officer

Glenn G. H. Van Doorne
Vice President Exploration and Development

Frederick A. Youck
Vice President Administration
and Corporate Secretary

TRANSFER AGENTS

Montreal Trust Company of Canada
Calgary, Alberta
Toronto, Ontario

TRUSTEES

Montreal Trust Company of Canada
Calgary, Alberta

Midland Bank
New York, New York

AUDITORS

Deloitte & Touche
Calgary, Alberta

BANKERS

National Bank of Canada
Calgary, Alberta

Barclays Bank PLC
Nicosia, Cyprus

ABN Amro Bank Kazakhstan
Almaty, Republic of Kazakhstan

LEGAL COUNSEL

Code Hunter Wittman
Calgary, Alberta

Paul, Weiss, Rifkind, Wharton & Garrison
New York, New York

Antis Triantafyllides & Sons
Nicosia, Cyprus

AEQUITAS
Almaty, Republic of Kazakhstan

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Tel: 7 (32422) 7-46-41
Fax: 7 (32422) 7-72-71
Contact: Keith L. McCrae, President

SHARE LISTINGS

Alberta Stock Exchange
The Toronto Stock Exchange
Trading Symbol – HHL.A
TSE 300 and TSE 200 composite indices
Nasdaq
Trading Symbol - HHLAF

CONVERSION AND EQUIVALENCY TABLES

	Multiply by
Miles to Kilometres	0.621
US Barrels to Metric Tonnes for 40° API crude	0.131
Acres to Hectares	2.471
Feet to Metres	3.281

1 square km = .386 square miles
1 square km = 247 acres
1 square mile = 640 acres
1 square mile = 259 hectares

Cdn $1.4291 to the US $1.00 as at December 31, 1997
Tenge 75.55 to the US $1.00 as at December 31, 1997

HURRICANE HYDROCARBONS LTD.

Харрикейн Хайдрокарбонс Лтд.

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U.A.E.
INDIA
BANGLADESH
SUDAN
Red Sea
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YEMEN
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April 1998
Proposed Pipeline
Existing Pipeline
Railroad
Refinery
Rail Terminal